# East Asia
## SUPPLEMENT
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## United States

### Call for More Exchanges With U.S. Praised

*OW0503062690 Tokyo THE JAPAN TIMES in English 4 Mar 90 p 18—FOR OFFICIAL USE ONLY*

[Editorial: "Time To Revive Friendly Exchanges"]

[Text] No surprises were to be expected from this weekend's summit meeting between Prime Minister Toshiki Kaifu and U.S. President George Bush in Palm Springs, California. We wonder. Perhaps not in a major breakthrough on our troubled trade relations. But Mr. Kaifu's proposed call for greater cultural and academic exchanges could have surprised our American friends, who have been concentrating so singlemindedly on wider opening of markets here.

Intercultural exchanges were never raised in top-level Japan-U.S. talks during the last decade since they were considered a private sector concern. The prime minister's proposal, therefore, is new, timely and important and we hope it is looked upon that way. For it aims to strike at the core of misconceptions that still plague aspects of our ongoing trade and other disputes.

That Mr. Bush's suggestion for the summit was agreed to on such short notice by Mr. Kaifu reflects the recognition by both leaders of the urgent need to shore up the partnership between our nations, which is under severe strain—and not only from "revisionists" or "Japan-bashers." Regrettably, too much emotionalism has developed on both sides.

It was disheartening to learn last week of the dramatic decline in American applicants for Fulbright scholarships to study here—only 60 in 1989, less than half the number in 1987—and for professional fellowships sponsored by the Japan foundation—a 40 percent decline in three years. A Foreign Ministry source credits a "psychological brake" rather than Japan's high cost of living. If that is so, it is time to help ease up on the brakes.

It is pointless to pretend that cultural differences do not exist between Japan and the United States To argue otherwise is to deny much of the character of each nation. That is not the same as making specious claims to Japanese uniqueness, nor does it mean that more steps could not be taken by this country to assure more balanced international trade. But scholars, artists and professionals are better abie to bridge the gaps between us than diplomats and bureaucrats. We need more of them now, traveling regularly both ways across the Pacific.

### MITI Minister Holds 'Hard Line' on U.S. Trade

*OW0303032490 Tokyo THE JAPAN TIMES in English 2 Mar 90 p 3—FOR OFFICIAL USE ONLY*

[Article by Masaki Itagaki, JAPAN TIMES staff writer: "Trade Chief Maps a Hard Line on Demands for Liberalization"]

[Text] If the United States is hoping for concessions from the new cabinet in trade negotiations it may be disappointed as far as the new trade minister is concerned.

"I think that Japan has so far been on the defensive," said Kabun Muto, newly appointed minister of international trade and industry [MITI]. "Being on the offensive will be more advantageous for us (in bilateral trade talks).

"I want to seize on American weak points," added Muto, who in 1979 served as agriculture minister and faced U.S. pressure to give foreign farm products greater access to the Japanese Market.

Commenting on the U.S. demand that Japan abolish a law regulating operation of large retail stores, the MITI minister said Japan will never fully comply with the demand. "The law should be relaxed rather than scrapped," he said. Although the U.S. has been urging Japan to change business and market structures, such as restrictive trading by its tightknit corporate groupings, it is the U.S. that has to make efforts to enter Japanese markets, Muto said.

He suggested that confrontation between Japan and the U.S. needs to be corrected at some point but that the two sides should avoid a situation in which Japan alone concedes to ease tension.

Muto said he wants to tell the U.S. that the Uruguay Round of multilateral negotiations to set new global trade rules will not succeed if Washington resorts to its strong political power to make rules to its advantage. The MITI minister opposes the liberalization of rice imports. The rice trade is one of the crucial issues to be decided before the conclusion of the Uruguay Round by the end of this year.

"Japan should not do what (Japanese) consumers oppose," the trade minister said, indicating that the government will not give in to pressure from the U.S. to lift the total ban on rice imports. However, he noted, "Japan is in a disadvantageous position on the rice issue."

Japan should cooperate with European countries to ward off U.S. pressure in the farming area, he suggested. The Americans and Europeans have been at odds over their own agriculture trade issues for many years, he noted.

As a long-term approach to solving trade friction, Muto said Japanese Diet members should talk more often with members of the U.S. Congress so Americans can better understand the Japanese situation.

### Editoral on Bush-Kaifu Summit, Trade Talks

*OW0303011490 Tokyo THE JAPAN TIMES in English 27 Feb 90 p 20—FOR OFFICIAL USE ONLY*

[Editorial: "The Structural Talks in Disarray"]

[Text] Unless things are taken into hand, Japan-U.S. relations are headed for trouble of a quite unnecessary nature. This is because the very methods that the two countries have chosen to ease the current trade problems are not helping but worsening the state of the world's most important alliance.

Last Friday night, the third session of the Structural Impediments Initiative (SII) talks ended in something approaching disarray. Within a few hours of the conclusion of the press briefing by the U.S. negotiating team, President George Bush was on the telephone to Prime Minister Toshiki Kaifu, requesting that the two leaders meet in a week's time in Palm Springs, Calif.

There has been more confusion over just what the two leaders are to discuss at such short notice. Early reports viewed the President's call as a direct consequence of American irritation at foot-dragging by Japanese negotiators at the structural talks. Later reports on the proposed agenda for the Palm Springs summit have emphasized that a broad range of international issues of concern to both nations will be discussed.

In any case, the timing of the summit alone is unprecedented. Normally, at least a month of preparation is required to hold a meeting of this sort. Mr. Bush has in effect given the two sides a week to prepare. As a new cabinet has yet to be named, and, indeed, the prime minister has yet even to be re-elected by the Diet, Mr. Bush's "date" with Mr. Kaifu is anything but convenient.

Unfortunately, the rush summit is fueling still other anxieties. On Friday night, Mr. Linn Williams, the deputy U.S. trade representative and the man who provided those quotable quotes that made headline news over the weekend, charged that "the Japanese participants (in the talks) might not have sufficient political guidance" to, in effect, satisfy American demands.

Confronted by what they perceived as a lengthy Japanese defense of the status quo at the SII talks, the Americans are hoping that the leadership of the Liberal-Democratic Party, fresh from its election victory, can be pressured into the kind of an agreement that has thus far eluded the SII negotiators. This strikes us as unlikely.

The fundamenntal difficulty that Mr. Kaifu and Mr. Bush must now confront is how to salvage a flawed idea. The SII reflected not a fresh departure in Japan-U.S. relations but the end of an important two-track road. One track consisted of tackling an ever-renewing stream of trade imbalances in individual product markets (a process that began in the late 1950s). The other was an effort since the early 1980s to manipulate macroeconomic policy in order to ease the total trade imbalance between the two nations.

The most dramatic example of such manipulation was the 1985 Plaza Accord, the resulting endaka (high yen) recession, and the staggering comeback of Japanese industry which followed. Since then, Japan's trade surplus with the U.S. has slowly fallen to its current $49 billion. Unfortunately, the composition of this imbalance is increasingly defined by new growth in U.S. imports of capital goods, such as machine tools.

In desperation, the Bush administration proposed the SII. The very notion was suspect. Some Japanese observers dismissed it as playing with words. Such critics had a point. There is no "structure" that is a mere "impediment." The vocabulary of the talks was in this sense loaded from the beginning.

What made the structural talks useful, and may save them now, is that talking about structures brings to light a number of reforms which, though they fall far short of structural change, could make both countries more efficient and less expensive places to live and do business.

Provided two things are recognized by both sides, the SII may yet be salvaged. First, the Japanese negotiators must accept that the timely tackling of structurally focused reforms is good for Japan. Second, the American side must understand that the achievement of SII goals will most likely have little impact on the trade imbalance in the short or even medium term. If both these points are accepted, then the Palm Springs summit may turn out to be not such a bad idea after all.

### Editorial Comments on Bush-Kaifu Summit

*OW0403??3290 Tokyo THE DAILY YOMIURI in English 3 Mar 90 p 6—FOR OFFICIAL USE ONLY*

[Editorial: "Japan-U.S. Friction Summit"]

[Text] Prime Minister Toshiki Kaifu, who inaugurated his second Cabinet this Wednesday, will leave Tokyo Friday afternoon for talks with U.S. President George Bush in Palm Springs, Calif.

On the agenda for the talks is the political situation in the Soviet Union, Eastern Europe, Asia and Central America. The two leaders will also discuss Japan-U.S. economic relations and other international issues that call for bilateral cooperation.

Owing to imbalances in bilateral trade and investment, Japan-U.S. economic relations have been steadily deteriorating. Now they are in a cold period. We must avoid circumstances where trade friction hampers the overall bond between the two countries.

To prevent this, the first thing that Japanese and U.S. leaders can do is meet each other more often. The anxiety of the United States over the Japanese economic threat is being enhanced by insufficient mutual understanding. Japan and the United States cannot maintain close ties when their leaders are not close.

**Kaifu Makes A Rare Appearance**

Jacques Delors, chairman of the European Community, speaks with the U.S. president by telephone about once a week. However, Delors is said to be dissatisfied over his infrequent meetings with the Japanese prime minister, which tends to be limited to the once-a-year summits of industrialized nations.

Japan's diplomacy focuses on the annual summit meeting of industrial nations and a few other overseas trips by the prime minister during the New Year's holiday and "Golden Week" in May, when the Diet session is in recess. Those trips are not enough in light of the current international political upheavals, which are said to occur only once in half a century.

In addition, the Japan-U.S. summit should be an occasion not only to address the problems close at hand, but also to adjust the bilateral relations between the two countries.

**Better Worldwide Cooperation**

The prime minister should exercise his political leadership in order to quickly solve the problems concerning an interim report on the Structural Impediments Initiative to be issued in April and Section 301 of the U.S. Omnibus Trade Act, which is intended to expand the export of satellites and other products by the United States to Japan. However, Japan and the United States should discuss a wider range of issues.

Though Japan and the United States historically have supplementary relations, the current trade friction is causing hostile feelings between the two countries, said Zbigniew Brzeinski, a former national security adviser who recently visited Japan. He also warned that the global positions of the two nations will be damaged if Japan-U.S. relations become too complicated.

The world has a mountain of problems today that cannot be solved without the cooperation of Japan, the United States and Europe, such as the formation of new political orders in Europe and the Asia-Pacific region, protection of the global environment, construction of a new trade order and correction of international imbalances such as the North-South problem.

Some people think that Japan and the United States should cooperate in making contributions to the world while forming a Japan-U.S. committee or Japan-U.S. economic charter to pursue their common interests.

Japan and the United States should study ways to prevent the foundation of Japan-U.S. relations from being destroyed by trade friction.

## 'New Era' in U.S. Defense Ties Discussed

*OW2202062790 Tokyo THE JAPAN ECONOMIC JOURNAL in English 26 Feb 90 pp 1, 5—FOR OFFICIAL USE ONLY*

[Article by staff writer Yuko Inoue; "A New Era for U.S.-Japan Defense Ties"]

[Text] U.S. Secretary of Defense Dick Cheney's arrival in Japan Tuesday will mark the beginning of a new era in U.S.-Japan defense relations, according to Tokyo-based defense analysts. Signs of that emerging era, they say, will include a likely reduction in U.S. troop strength in Japan, higher Japanese "burden sharing" spending to support U.S. troops and more joint Japan-U.S. development of aircraft and weapons.

But the 1990's will also likely see an increse in bilateral defense friction, caused by the U.S.'s economic problems and Japan's growing desire to build its own aircraft and weapons' systems. A likely outcome of these changes, say analysts, will be reform of the Japan-U.S. Security Treaty, which has guided bilateral defense ties since 1952.

Says Terumasa Nakanishi, a professor at shizuoka university: "The Japan-U.S. security pact should develop into a broader political alliance, with security functions at its core."

**U.S.'s Asia Strategy**

There are numerous reasons why, after decades of relative stability and little change, a shift in Japan-U.S. defense ties appears inevitable this decade.

The U.S. budget deficit has forced the Bush administration to cut costs, the "Soviet threat" has been sharply reduced and many Japanese believe the nation will be forced to reduce its long dependence on the U.S. and develop self-reliance. Speaking in Seoul last week, Defense Secretary Cheney said the Pentagon wants to slash its 120,000 forces in Asia by 10-12 percent the next three years. As many s 9,400 troops would be withdrawn from the Philippines and Japan, he said.

Currently, some 50,500 U.S. troops are stationed in Japan and Japanese taxpayers pay 40 percent of their total cost, or Y365 billion a year. Japan itself has 245,000 Self-Defense Force personnel and spends more than Y3.9 trillion a year on defense.

The new possibility of U.S. troop reductions, whether in Japan or throughout Asia, will force the Defense Agency and top Self-Defense Forces officials to reassess their current thinking, analysts said. Among questions that

need resolution: What kind of "deterrents" does Japan need? How much U.S. military aid is required? Should Japan bear U.S. defense costs? These and other pressing issues will be raised Feb. 20-24 during talks between Defense Aency Director Juro Matsumoto, Cheney and H. Allen Holmes, U.S. ambassador for burden sharing.

U.S. defense requests to Japan run the gamut from burden sharing to technology transfer. For example, Washington has requested that Tokyo increase its host nation support for U.S. troops in Japan from the current $2.4 billion to $4 billion a year.

At present, under the 1970 Japan-U.S. Status of Forces Agrement, Japan is obliged to provide buildings, facilities and land for the U.S. military in Japan. In turn, the U.S. pays salaries for U.S. troops and for the 22,100 Japanese employees who work on the bases. Since fiscal 1978, however, Japan has borne part of these Japanese workers' salaries; in fiscal 1991, it will pay nearly half, at a cost of Y6 billion a yar.

Soon, however, analysts say, it's likely that the Japanese Government will pay all these workers' salaries.

**Sensitive Request**

Another increasingly sensitive U.S. request is that Japan increase purchases of military aircraft and weapons made by U.S. firms. The Pentagon also is strongly encouraging Japanese and U.S. companies to cooperate more closely in developing parts for U.S.-made weaons and aircraft. "The largest source of friction will be proposals for more cooperation in technology development," says Shizuoka University's Nakanishi. "This could give rise to nationalistic sentiment among the Japanese."

For both nations, the FSX controversy lst year is seen as a harbinger of possible problems. Joint development of that next-generation fighter jet created tension on both sides of the Pacific.

A more recent issue is the U.S.'s informal request late last year that Japan buy multiple launch rocker systems [MLRS] and airborne warning and control systems. According to analysts, that request conflicts with Japanese corporate and Defense Agency desires to start licensed production of MLRSs in the next three-year defense program, which starts in fiscal 1991.

A Defense Agency official, who asked not to be identified, said that licensing production is necessary for Japan to overcome inconveniences caused by discontinued parts' supplies and maintenance problems. He added that many within the agency are dissatisfied with the U.S. requests.

Kinji Yajima, a professor at Aoyama Gakuin Universify, said that the U.S. could possibly request Japanese companies to jointly develop and supply parts for weapons and aircraft made in the U.S. Indeed, some American aircraft and weapons already depend for between 10 percent and 60 percent of their total components on Japanese parts, according to Yajima.

**New Alliance**

During this week's bilateral talks, Japan and the U.S. will confirm their continued cooperation within the framework of the Japan-U.S. security pact. Increasingly, however, Japanese analysts say the easing of East-West tensions and Japan's greater economic presence will make reform of that pact inevitable.

One idea gaining popularity among some Japanese and American Government officials is a shift of emphasis in the pact toward more economic cooperation.

## Editorial on Cheney Plan for Troop Cuts in Asia

*OW2502124190 Tokyo MAINICHI DAILY NEWS in English 24 Feb 90 p 2—FOR OFFICIAL USE ONLY*

[Editorial: "U.S. Troop Cuts and Asia"]

[Text] During the talks between U.S. Defense Secretary Dick Cheney, who has been visiting Japan, and his Japanese counterpart Juro Matsumoto, an agreement was reached on reducing the number of U.S. troops in Japan by 5,000 to 6,000 within three years.

The reduction, equivalent to about 10 percent of the U.S. Forces in Japan, will primarily involve non-combat personnel. It is hoped that this move, as part of the easing of worldwide tension now under way, will become linked with the advance of disarmament in Asia.

The purpose of Defense Secretary Cheney's visit to the Republic of Korea, the Republic of the Philippines, and Japan was to explain the East-West disarmament that is making rapid progress vis-a-vis the international situation, and the plans for reducing the U.S. defense budget and troop strength. He also wanted to discuss budget sharing between the United States and its allies.

The countries concerned showed understanding of the American reduction plan. Both the ROK and Japan expressed willingness to increase their share of the cost for keeping U.S. troops stationed in their respective countries. With this, it can be said that Defense Secretary Cheney's original objective has been attained.

It is somewhat disappointing, however, that the American-Japanese meeting on the issue of defense, held in the midst of the historic change that has brought the cold war to an end, limited the discussios to a reduction of troops and burden sharing, and failed to take up the broad view of how to cope with the dynamic change in international relations.

In particular, the Japanese attitude that a sharp reduction of U.S. bases might lead to instability in Asia and should, therefore, be carried out carefully, shows an

inability to keep up with the changing international situation. The impression given is that of merely clinging to the tail of the cold war.

Although the American explanation is that there will be no change for the time being in "the strategy of forward deployment," the possibility exists that the "rationalization and reorganization" this time could develop, in the long run, in a large-scale reduction of U.S. troop strength in the Pacific. The framework of security after the end of the cold war and in a period of disarmament requires restudy.

Cheney said that "the danger of a Soviet-American global war has ebbed to the lowest level in the post-World War II period," though it is reported that agreement was reached that "a lowering of Soviet troop strength in Asia cannot be seen in the same light as in Europe."

It cannot be denied, however, that disarmament in Asia is lagging behind the moves in Europe. Nevertheless, the Soviet withdrawal from Cam Ranh Bay and the U.S. reduction of troops indicate that a general easing of tension has spread to Asia also.

Despite the tension on the Korean peninsula, the Republic of Korea is reported to be projecting a large-scale withdrawal of U.S. troops in the future and is restudying its defense and security structure. In contrast to this, the Japanese Government seems to be so preoccupied with applying a brake on the withdrawal of U.S. troops that it lacks any long-range prospects.

In agreeing to pay for the salaries of the Japanese workers at the U.S. bases and the lighting/heating expenses there, the government seems to have only a shortsighted view that accedes to U.S. demands.

What Japan should do is to take a more positive role in helping ease the tension throughout the whole of Asia. A pragmatic non-military program, including economic aid, should be drawn up and implemented. This is the best contribution to disarmament.

### U.S. Plans for Troop Cutbacks in Asia Viewed

*OW0203021190 Tokyo ASAHI EVENING NEWS in English 28 Feb 90 p 6—FOR OFFICIAL USE ONLY*

["Political Spectrum" column: "Hanging On to the Security Treaty"]

[Text] The U.S. plan to cut its forces here by 10 to 12 percent in the next three years has put the Japanese government in trouble.

Government officials refuse to acknowledge that the projected cut reflects the relaxation of East-West tensions, fearing that acknowledging it would spark a public demand that the Self-Defense Forces [SDF] also be reduced. They also seem to be wary that the argument that the buildup of the SDF should be stepped up to prepare for a greater U.S. force cut might mount.

The Defense Agency insists that the United States is cutting its forces here because of its budget deficits. But U.S. Defense Secretary Dick Cheney, in his speech in Tokyo last Friday, appeared to deny that the deficits were the chief motivation. He acknowledged that a further troop reduction might be carried out, saying appropriate adjustments might be made if there were clear signs that regional security wasn ot in jeopardy.

There is no doubt that the opposition will call for a review of Japan's defense policy in the special Diet session, which was convened on Tuesday. Even the Democratic Socialist Party, described as "too enthusiastic pro-defense rooters" by a Defense Agency source, has started suggesting a reduction of the U.S. bases here, a review of the administration of the Japan-U.S. security system, and a cut in Japanese defense spending.

Some Americans now suggest that selective reductions should be considered for the SDF.

In reference to the U.S. troop cut plan, government officials say that the scale of reduction is within the bounds of modernization efforts. They also contend that the relaxation of East-West tensions has nothing to do with the SDF as its strength has not been set at a level matching the scale of the threat it is supposed to meet. But these arguments will not carry sufficient conviction to fend off calls for a policy review.

Still, staying the course on the Japan-U.S. security system seems to be the only thing the government can think of. Unable to decide whether the Cold War will really end, the government seems to be afraid of lending a hand to end it. "For the time being, Japan has no choice but to hang on to the Japan-U.S. Security Treaty, even if it means kowtowing to the United States," says a senior official of the Defense Agency.

The agency first learned of the U.S. plan to cut its forces in Japan last fall. The news sent shock waves through the agency and the Foreign Ministry because, if the withdrawal of combat troops were involved, it would mean that the American forward defense strategy was under review and this could eventually lead to a review of the Japan-U.S. security system.

Seiki Nishihiro, vice minister of defense, flew to Washington in late January to ask U.S. officials about the details of the plan, while Jiro Hagi, head of the agency's defense division, toured the Philippines and South Korea to collect information. The inquiries revealed that the pullout of combat troops was not involved.

Nevertheless, Foreign Ministry Taro Nakayama, in his talks with Cheney here last week, reminded him that the

U.S. forward defense strategy was essential to the stability of the Asia-Pacific region and urged that Washington take into consideration the military and political situation in the Asia-Pacific region in implementing the troop reduction plan.

"The Japan-U.S. Security Treaty may go the way of the Anglo-Japanese alliance after the Russo-Japanese War." Many officials make the comparison at the Defense Agency now. They point out that when the Soviet Union ceases to be a common enemy, wrangling between Japan and the United States will become conspicuous, just as the Anglo-Japanese alliance, formed against Russia, lost its meaning when Japan won the war against Russia.

In his meeting with Cheney last week, Defense Chief Juro Matsumoto emphasized the need for Japan and the United States to find a target for common endeavor. The statement evinced the government's anxiety over its inability to find a new target.

Anticipating that it might come to such a pass, the Defense Agency proposed to make the joint Japan-U.S. development of arms technologies a new pillar of the bilateral security ties. The project for the joint development of the Air Self-Defense Force's next support fighter, code-named FSX, represented the first specific attempt to move in the new direction. But it has turned into a symbol of technological friction between the two countries.

The government contends that the Japan-U.S. Security Treaty provides the framework for the entire bilateral relationship. Outlining this position in his meeting with Cheney last week, Prime Minister Toshiki Kaifu said, "This treaty is a pact to protect freedom and democracy."

With a view to preserving the treaty, the opinion is gaining ground at the Defense Agency that more attention should be paid to the pact's economic provision. In his meeting with Cheney, Matsumoto pointed out that the security treaty is a wide-ranging pact, covering not only military affairs but also political, economic and cultural fields.

## Editorial on Matsumoto-Cheney Defense Talks

*OW2702184090 Tokyo THE DAILY YOMIURI in English 25 Feb 90 p 6—FOR OFFICIAL USE ONLY*

[YOMIURI SHIMBUN 24 February editorial: "Security Pact Reaffirmed"]

[Text] The talks in Tokyo between Defense Agency Director General Juro Matsumoto and U.S. Defense Secretary Dick Cheney have shown that the Japan-U.S. security treaty is playing a significant role for peace and stability not only in Japan, but also in the rest of Asia. The two defense chiefs reaffirmed their nations' commitment to the bilateral security treaty as a tie connecting Japan and the United States. This reaffirmation is particularly important now, when the international situation is changing so quickly and when Japan-U.S. relations seem to be worsening because of trade friction.

In the talks, Cheney announced a plan to cut 5,000 to 6,000 U.S. troops in Japan during a three-year period, and requested that Japan shoulder more of the costs of supporting U.S. forces in the country. The proposed cut of about 10 percent of the U.S. troops presently in Japan is not insignifcant. Some observers in Asian countries worry about the consequences of this and similar reduction in the Philippines and South Korea.

Japan's Self-Defense Forces are supposed to be able to fight against a limited aggression. In the case of a large-scaale attack, the government would ask for help from U.S. forces based on the bilateral security treaty.

### Soviet Threat

This policy is intended to deter attacks against Japan. The strength of the deterrence depends largely on U.S. military capability. Cheney stressed that the troop reduction plan would not change U.S. strategy of forward deployment in Japan.

The U.S. military cutback should be lauded for the contribution it makes toward a healtheir U.S. budget situation. But as long as there is no sign of Soviet force reductions in the Far East, as the two defense chiefs agreed is currently the case, it would not be a good idea to make troop reductions that might result in a reduction in U.S. military strength.

Asian countries are concerned about U.S. force reductions because they fear Japan would become a major military power to fill the void left by the United States. In considering Japan's response to U.S. demands for an increase in financial support for U.S. forces, the government should bear in mind these fears.

### Economic, Not Military Power

Japan should not become a major military power. This is the opinion of the great majority of Japanese citizens. Japan should choose instead to utilize its great economic strength in making the Japan-U.S. Security Treaty work more effectively.

During the meeting, Matsumoto showed a positive stance toward assuming more of the cost burden for U.S. forces in Japan. The government and the Liberal Democratic Party should strive to gain the understanding and cooperation of the opposition parties for the increased outlays.

Matsumoto called for cooperation from the United States and other Western countries in seeking major reductions in Soviet forces in the Far East. The government should seize the opportunity afforded by U.S. troop reductions to seek reductions in Soviet forces, which go far beyond the bounds of normal defense

needs. This would lead to greater trust between the Soviet Union and the West.

A proposal to the Soviet Union for Asian detente, made under the framework of the Japan-U.S. Security Treaty, would be a remarkable event. We hope it happens.

### Columnist Analyzes Japan-U.S. Defense Talks

*OW2402071090 Tokyo THE JAPAN TIMES in English 23 Feb 90 p 3—FOR OFFICIAL USE ONLY*

["Analysis" column by staff writer Takashi Kitazume: "Japan Continues Steadfast in Its Defense Policy"]

[Text] Top-level defense talks between Japan and the United States on Thursday showed that Tokyo has not planned any radical changes in its defense policy for the foreseeable future.

The U.S. will continue, despite its fiscal difficulties at home, to maintain a military presence in the East Asia.

The visiting U.S. defense secretary, Dick Cheney, told his Japanese counterpart, Juro Matsumoto, that Washington will remain committed to its security alliance with Tokyo regardless of the planned personnel cuts.

Japan, for its part, will step up its financial—and possibly technological—contribution to the bilateral security arrangement.

It is undeniable, however, that the Pentagon faces stiff budgetary restrictions in keeping up the huge U.S. military presence in Asia and Europe.

The annual U.S. defense report released in January, while calling for continued vigilance against the Soviet threat, suggests that Washington's allies should assume a larger share of the costs of Western security. For example, the report calls on Japan to "do even more in the area of cost-sharing."

At the same time, Washington does not seem to want Japan to boost its own defense capability too far. "There are a great many ways that Japan can contribute to the common defense," Cheney reportedly said just before the start of his Asian tour.

In calling on Japan to bear more of the costs of stationing U.S. troops here, Pentagon officials emphasized that "wide-ranging support of the allied nations" is required to maintain Washington's forward deployment strategy, according to a Defense Agency official. The Defense Agency replied that Japan will make due efforts in line with "its own decision" but "with the U.S. requests in mind," the official added.

During Thursday's session, Matsumoto and Cheney agreed on the need to promote two-way technological exchanges between Japan and the U.S. suggesting that the flow of military technology between the two countries be accelerated. This apparently reflects a widespread skepticism in Washington over Japanese-U.S. technological cooperation in the defense field, like that for the FSX jet fighter development project. It is though that only Japan will benefit, by acquiring key American technology transferred to Tokyo.

Since last year, Japanese defense planners have been worried that Japanese-U.S. security arrangements are being threatened by trade imbalances and high-tech disputes between the two countries. The Matsumoto-Cheney talks confirmed that the bilateral security alliance will be maintained—ironically enough—through promises of increased economic and technological cooperation, observers say.

### Editorial Calls for Review of Security Policy

*OW2702153290 Tokyo ASAHI EVENING NEWS in English 26 Feb 90 p 6—FOR OFFICIAL USE ONLY*

[ASAHI SHIMBUN 25 February editorial: "A 'Team B' for Japan"]

[Text] U.S. Defense Secretary Dick Cheney over the weekend wound up his three-nation Asian tour after giving advance notice that Washington will reduce American troops stationed in Asia. According to the Bush administration's proposal, a total of 12,000 to 13,000 U.S. troops will be withdrawn from Japan, South Korea and the Philippines—including 5,000 to 6000 from Japan.

For the past 45 years since the end of World War II, American troops have been stationed in Japan without a break. Although Cheney's proposal involves the reduction of only 10 to 12 percent of the total number deployed in Japan, we certainly cannot help feeling certain deep emotions. All the more so, if Washington's latest decision is part of a set of moves reponding to the current trend toward global detene.

Will the reduction in U.S. troops be limited to just this one time? Or will it mark a prelude to further withdrawals? Is it simply out of a desire to reduce its fiscal deficits that Washington proposes to cut the number of troops stationed in Asia? Or is the decision based on a policy that looks into the furture—an action in line with America's new Asia-Pacific stratey?

Actually, these were the questions to which we had hoped participants in last week's Japan-U.S. defense summit would provide clear-cut answers to the Japanese public. Unfortunately, however, it cannot be said the meeting was sufficient in this respect. In particular, the Japanese side, because it was not prepared with a strategy adapted to the new world situation, gave us the impression that its position ran counter to the times throughout the talks.

The basic Japanese position on the eve of last week's Japan-U.S. defense talks was the assumption, first of all, that the latest U.S. troop cut proposal was a measure mainly designed to reduce America's fiscal deficit and not one resulting from changes in the international scene. The Japanese negotiators felt that a reduction of 5,000 to 6,000 in troops remained well within the scope of maintaining effectiveness and capability in mutual defense and that the proposed troop cutback would be restricted to non-combat support personnel. From the very beginning, the Japanese position was that there would be no decline in U.S. combat reliability and that Washington's "forward deployment strategy" would remain intact.

If we are to believe the post-meeting statements made public by the Japanese side, it appears that Washington went along with the Japanese position in general terms. However, at a press conference prior to his departure from Tokyo, Secretary Cheney stated that "effective adjustments may be made in the future, if we can see clear signs that the region's stability will not be jeopardized." Clearly, this statement leaves one with a premonition that the latest U.S. troop cutback concept could, at some future stage, crush the expectations and hopes of the Japanese side.

Of course, it is difficult to think that Washington would lightly abandon its "forward deployment strategy" or that the justification for America's military presence in Asia would become suddenly obsolete. At the same time, if U.S.-Soviet relations continue to improve, who can deny the possibility of a change taking place in the strategy's main objective—as well as a decline in the importance of the strategy itself?

A top member of Japan's Defense Agency establishment recently was reported as having said that Japan "has no choice but to cling to the existing mutual security arrangement by kowtowing to Washington." Although such a statement probably is the product of a sheer habit developed over a long period of time—where things went smoothly for the nation's defense authorities so long as they made obeisance to the United States—what must not be forgotten is that today Washington itself is trying to change its course.

The Japanese are at an important stage where they need to review the nation's mutual security policy. As we have argued all along, serious, broad debate needs to be held on this problem, first of all, at the national level—the Diet (parliament).

To get this rolling, the Kaifu government should present to the Japanese electorate a definite proposal steeped in flexible thinking and philosophy. So long as the Japanese stolidly continue to cling to an outmoded, rigid mindset, there would be no hope of their giving birth to fresh perspectives.

When he was director of the Central Intelligence Agency (CIA), President George Bush initiated an intra-agency group called the "Team B." According to those in the know, Bush, who was not satisfied with the analyses of the Soviet Union supplied him by the already existing CIA group, ordered that a separate team be established to analyze Kremlin policies by using an entirely different set of viewpoints. The upshot appears to have been unpopular because the team's reports tended to be strongly tainted with ideology.

Noetheless, the idea of setting up a governmental group, similar to "Team B," is vital for today's Japan. The time has come for the Japanese government to transcend interministerial rivalries and mobilize the nation's wisdom, from the private as well as public sectors, so that all alternatives can be worked out in preparation for the day when today's fixed, immobile security policy will have become out of touch with world reality.

## Nakayama Interviewed on Healing U.S. Ties

*OW0203044590 Tokyo THE JAPAN TIMES in English 1 Mar 90 pp 1, 5—FOR OFFICIAL USE ONLY*

[Article by Hisane Masaki, JAPAN TIMES staff writer: "'Bold' economic Steps Needed To Sooth U.S., Nakayama Says"]

[Text] Japan needs to take "bold" steps to help ease economic and trade tensions with its most important ally, the United States, Foreign Minister Taro Nakayama said Wednesday. "For the future of bilateral relations, Japan and the U.S. must reach some bold solutions in the SII (Structural Impediments Initiative) talks," Nakayama said in an interview with THE JAPAN TIMES.

Nakayama was retained in the first reshuffle of Prime Minister Toshiki Kaifu's cabinet earlier in the day. Nakayama said the time is not right for him to say what specific steps Japan will take to break the current impasse in the SII talks.

### Kaifu Visit Important

The talks, aimed at removing the underlying causes of the huge bilateral trade imbalance, are likely to be high on the agenda at a two-day meeting between Prime Minister Kaifu and President George Bush in California on Friday and Saturday. Nakayama plans to accompany Kaifu on the U.S. trip.

"There are some things that Japan can do either in the short or medium terms, but there are others that Japan cannot do," the foreign minister said. "Japan needs to say clearly to the U.S. what it cannot do." He also said Japan must seek U.S. understanding of difficulties in pushing through the Diet, where the opposition commands a majority in the less powerful upper house, any reform bills that would be opposed by both opposition parties and industries concerned.

**SII Talks Stalled**

In the last round of SII talks held in Tokyo last week, the U.S. pressed Japan to scrap a law regulating large-scale retail chains, to sharply increase public works projects and to toughen the Antimonopoly Law, among other things.

The government must do its best to push ahead with the SII talks while taking into account the results of the Kaifu-Bush meeting this week, Nakayama said, apparently referring to a midterm report on the SII talks to be presented in early April. He expressed a grave concern about growing anti-Japanese sentiments in the U.S. against a backdrop of the big trade gap, which was about $49 billion in 1989, nearly half of America's overall trade deficit.

"There are probably many ways to solve the issue of trade imbalance, including creating a mechanism for reducing Japanese exports to the U.S., although such a mechanism is not appropriate for a free trading nation like Japan.

**Relations Deteriorating**

"Yet, as Japanese-U.S. relations are deteriorating, some steps must be taken to maintain our friendly ties," he said. Nakayama also stressed the importance of close relations with the U.S. based on the security treaty, saying the U.S. has played a major role in Japan's postwar development.

Japan and the U.S. need to conduct a "frank" exchange of views on America's security policies in the Asia-Pacific—including those after the planned 10 percent to 12 percent reductions of its forces over three years—amid the easing of East-West tensions, he said.

**Dealing With Soviets**

Referring to relations between Japan and the Soviet Union, he reiterated a strong Japanese desire for an early settlement of the dispute over the Soviet-held islands off Hokkaido and for the subsequent conclusion of a peace treaty. In this context, he attached particular importance to his talks in Tokyo with his Soviet counterpart, Eduard Shevardnadze, expected in May. The Soviet foreign minister's trip to Japan, originally scheduled for mid-March, is almost certain to be postponed by that time because of his tight domestic schedule. It will mark the start of full-scale diplomatic preparations, for a planned visit here sometime in 1991 by Soviet President Mikhail Gorbachev.

Nakayama did not rule out the possibility that he might discuss with Shevardnadze reductions of naval forces in the Asia-Pacific. "The existence of the Japanese-U.S. Security Treaty does not prevent Japanese-Soviet talks on such a topic," he said. Tokyo and Washington have so far rejected a Soviet offer to hold talks on naval reductions in the Asia-Pacific region, citing a potential Soviet threat.

Expressing a willingness to talk about the issue with Shevardnadze, Nakayama reiterated Japan's view that the Soviet Union is modernizing its military forces in the region despite reductions in aircraft and other areas.

**North Korea Promising**

On the dispute with North Korea over the detention of two Japanese seamen in Pyongyang, a major stumbling block to improved bilateral ties, he said he strongly expects North Korea to begin to move toward releasing them. The foreign minister based his optimism on what he called "new moves" by Pyongyang's diplomatic missions in third countries. He did not specify what they are. He said Japan will step up informal contacts with North Korea in third countries in an effort to gain the release of the two Japanese, who were seized six years ago. Japan has no diplomatic ties with the country.

Turning to relations with capitalist South Korea, Nakayama voiced a firm determination to try to resolve pending issues, including the dispute over the legal status of "third-generation Koreans" living here before President No Tae-u's visit here. South Korea has made the settlement of the legal-status issue a precondition for No's Japan trip, which is expected in late May.

## Negotiators Warn U.S. Trade Sanctions Likely

*OW2602120090 Tokyo THE DAILY YOMIURI in English 25 Feb 90 p 8—FOR OFFICIAL USE ONLY*

[Text] The attitude of the U.S. negotiators in the session of the Japan-U.S. Structural Impediments Initiative [SII] that ended Friday indicated that if Japan does not show substantial progress in opening its markets soon, the U.S. is likely to implement trade sanctions, Japanese negotiators warned Friday.

In the third round of SII talks, the U.S. officials urged Japan to sharply increase public works spending. The U.S. negotiators also demanded that Japan scrap the law regulating large-scale retail stores, and strengthen the Antimonopoly Law to control exclusionary trade practices. Although Japan rejected all the U.S. demands during the talks, International Trade and Industry Ministry [MITI] Councillor Naomochi Suzuki said that the bilateral trade negotiations have now entered their most crucial stage, as economic friction between the world's two major economies has developed into political friction.

Frustration over Japan's slowness to curb its snowballing trade surplus with the United States has also added fuel to the growing pressure for trade protectionism in the U.S. Congress, which is expected to impose the "Super 301" provision of the 1988 U.S. Omnibus Trade Act against Japan again at the end of March. Accordingly, Foreign Minister Taro Nakayama said Prime Minister Toshiki Kaifu should call an emergency conference of the foreign, finance and MITI ministers immediately after the new lineup of the new Cabinet is decided, in

order to coordinate the government's trade policies. The U.S. Trade Representative's [TR's] office is scheduled to submit its annual report on foreign trade barriers to the Congress at the end of March. The list of nations designated for U.S. trade sanctions will be decided at the end of April, based on the USTR report.

In addition to semiconductors, pressure is reportedly mounting in the Congress to include Japan's structural impediments to foreign trade, including exclusionary business deals among "keiretsu" corporate groupings and the Japanese government's administrative guidance to industries, among the list of 13 items of Japan's unfair trade practices. Meanwhile, rough going is expected at home for efforts to gain public support for a concession to the U.S. demand to scrap the Large-Scale Retail Store Law.

### Former Vice Minister Views Structural Talks

*OW2402062390 Tokyo THE JAPAN TIMES in English 20 Feb 90 p 20—FOR OFFICIAL USE ONLY*

[Article by Makoto Kuroda, former international trade and industry vice minister for international affairs: "SII Talks Are an Opportunity"]

[Text] The two-day Structural Impediments Initiative [SII] talks that began Thursday in Tokyo may sway future Japan-U.S. relations for good or ill. If the talks' results are such that the public perceives them to be a failure, it could plunge the bilateral ties into the worst ever situation since the end of the war, spurring overt moves in the U.S. Congress toward managed trade. However, should the talks be evaluated as productive, they will help improve Japan-U.S. relations. Then, what are the conditions for the SII talks to be successful?

First of all, what results are expected from the SII talks? I am asking this basic, rather obvious question because it seems to me that misconceived and excessive expectations are held for the talks. When the United States first proposed the SII talks, Washington was apparently using the phrase "structural impediments" to mean that structural barriers exist which obstruct the trade and balance-of-payment adjustment despite a drastic change in the yen-dollar exchange rate. From this view the success or failure of the SII talks would depend on whether the U.S. trade deficit of about $50 billion with Japan will be reduced significantly and quickly. If this is the case, obviously, the U.S. wants too much, too soon. It is well understood that a country's global trade balance is a result of that country's macroeconomic policy, and that multilateral coordination of such macroeconomic policies and foreign exchange rates through the Group of Five major economic powers has produced considerable effect in the form of U.S. export expansion and a growth in Japan's imports. However, it is a totally misplaced assumption to think that the SII talks will bring immediate results in improved numbers for the trade balance as a whole, much less bilaterally.

Then, what can we realistically expect from the SII talks? I do not subscribe to the criticism that the talks are a mere waste of time and that they will only increase frustration on both sides. I would rather see the SII talks having a positive meaning in the search for more healthy Japan-U.S. relations. U.S. President George Bush was reported to have rightly stressed the importance of the talks in laying the groundwork for closer ties between the two countries from the long-term perspective. If it is desirable to work for closer ties between our two countries, which are becoming even more interdependent, then, I believe, the two nations should deepen their mutual understanding of each other's situation and try to better harmonize their systems and institutions to create an environment that allows freer business activities. The SII talks on structural problems existing in both Japan and the U.S. should be used as an opportunity to do so.

It must be noted that the SII talks take up matters which, in the conventional sense, imply unjustified interference in each other's internal affairs. It could strike some people as unwanted meddling, indeed. In some quarters of both countries there is in fact strong reaction to the unconventional implications of the structural talks. On the other hand, there are also people who think that the other side's views are worth listening to and that accommodating them will be in their own national interest. The right approach in this instance is to avoid provoking hostile reaction and seek smooth acceptance by the negotiating partner. It is important that each party present its arguments as the honest advice of a friend and good neighbor. Only then can they expect receptiveness to what they have to say and feel safe to follow the other's advice. If the impression is created that the one party is interested only in making unilateral accusations or threatening retaliation if its demands are not met, then the talks could end up with very unfortunate results.

Let me discuss the main topics of the SII talks in more specific terms. Japan does not need to be reminded by the U.S. that its stock of public investment is inadequate. This is as clear as the fact that the U.S. budget deficit is too big to leave unattended. On the other hand, it is also a fact that in view of the expansionary strength of the economy at present, Japan's public works budget already is more than enough. It is not difficult to understand the Finance Ministry's wariness of making any commitment on its future budget policy. If the ministry, however, refuses even to present and discuss its views about the future direction of fiscal policy in this country, then it may well be criticized for being overly defensive.

The land problem remains the toughest but most urgent task of policy for the Japanese Government. If the U.S. has a good idea to offer the Japanese will lend an attentive ear to it. Other matters that fall under the government's jurisdiction, such as the law regulating large-scale retail outlets, should be negotiated between governments. Particularly, Japan's high prices have become a symbolic issue; the American perception is that Japan alone practices some strange and unfair distribution and pricing systems. The matter needs more

investigation on a comprehensive and continuous basis. If such an investigation actually found significant price gaps, the government should clarify why such gaps exist.

Solutions to the disputes over private sector business behavior, such as exclusionary business practices, cannot be found by reinforcing the antimonopoly law, encouraging private suits and stepping up crackdowns on lawbreakers. We should rather seek a solution through talks among the private sector people directly involved. This will have to be preceded by efforts to define problems, such as investigation of actual business practices and academic research as well as international conferences including representatives from third countries. Japan may not be as receptive as the U.S. to newcomers in the market. This is not an area where a legal approach can be of much help. Unless the business community addresses the problem as part of business behavior, the situation will not improve. It is hoped that the SII talks will prove to be a step for making Japan-U.S. relations still closer and stronger than they are now.

### Canon Chairman on Progress at Structural Talks

*OW0103070990 Tokyo ASAHI EVENING NEWS in English 27 Feb 90 p 5—FOR OFFICIAL USE ONLY*

[Article: "Japan Needs a Gorbachev"]

[Text] The third round of Japan-U.S. talks on structural issues, which ended last Friday, was described by Ryuzaburo Kaku, chairman of Canon Inc., as "foolish"—in the sense that Japanese bureaucrats are still hooked up on the same old habit of trying to change the country with the help of foreign pressure.

In a comment to the ASAHI SHIMBUN, he said:

"I have the feeling that the talks are foolish. Most items on the agenda are the ones that Japan must address on its own. But the bureaucrats involved in the negotiations are trying to change the country by using foreign pressure. Worse, they are trying to resist U.S. demands in order to cut back on Japanese concessions. I don't think the talks will produce satisfactory results even if agreement is reached. Japan-U.S. relations would further deteriorate and the crisis would get more serious.

"What is really at issue is our own social system. The system we have now is based on the wealth accumulation and industrial development that Japan has pursued as a national goal since the Meiji Restoration. Take administration, for example. The financial community is guarded by the Finance Ministry. Industry is developed by the Ministry of International Trade and Industry. Agriculture is protected by the Agriculture, Forestry and Fisheries Ministry.

"This system is getting out of sync with the times. Our society is distorted by money worship. A defendant in the Recruit scandal trial has been returned to the Lower House. Now the Japanese can't tell the difference between good and bad.

"The present system must be scrapped. We must create a new system focused on national life and coexistence with other peoples. First, we should introduce (a new system of political subdivisions) such as a federal system. We should set up a parliament where politicians can discuss world issues regardless of constituent interests. At the same time, (the central government's) functions related to business should be relegated entirely to local governments; with the exception of foreign policy, economic planning, industrial policy planning and so forth.

"Businesses must change too. Cross-shareholdings, one of the issues in the structural talks, should be limited to 30 percent to 40 percent (of the total number of shares). I think there should be limits also to transactions within a business group. Expense accounts should be reduced. It is absurd that a meal at a restaurant should cost Y100,000 per head.

"In the past the United States has been swept by storms like the Prohibition and McCarthyism. I wonder how Congres will react if an interim report due out in April does not include satisfactory results for the United States. In Europe, too, people are beginning to say that the Japanese are killers. The world will be filled with anti-Japanese voices unless we do something.

"Now is the turn for politicians. I hope that a man with the stature of Gorbachev will become prime minister and show, at the risk of his life, the direction in which the country should move. But, alas, I can't think of anybody who can do the job. The Japanese are really unfortunate."

### Editorial Stresses 'Long View' for SII Talks

*OW2702144690 Tokyo THE DAILY YOMIURI in English 26 Feb 90 p 6—FOR OFFICIAL USE ONLY*

[YOMIURI SHIMBUN 25 February editorial: "SII: Taking the Long View"]

[Text] The Japan-U.S. Structural Impediments Initiative [SII] talks, which began last autumn in an effort to address the imbalance between the two countries in trade and investment, have reached a turning point, with an interim progress report scheduled for April.

U.S. negotiators expressed dissatisfaction at the end of the two-day third round of SII talks, which had been postponed until Thursday because of the Feb. 18 general election, saying they were frustrated at the slow response of the Japanese.

Repairing deteriorating Japan-U.S. economic relations will be the most important task for the second Kaifu cabinet, to be formed soon. Prime Minister Toshiki

Kaifu and U.S. President George Bush will meet in Palm Springs, Calif., March 2 and 3 to address this issue among others.

Although the SII talks have not produced any tangible results yet, Japan's trade surplus has sharply decreased, and the U.S. trade deficit shows signs of decreasing.

Nevertheless, no major change is seen in the great trade imbalance between Japan and the United States, and criticism of Japan by Americans is not likely to subside.

**U.S. Representing Japan's Consumers?**

To avoid a deep crack in bilateral relations, caution must be exercised so that in the minds of Americans the Soviet military threat is not replaced by the Japanese economic threat.

Over the past year, Japan has changed prime ministers twice due to political turmoil and has had elections for the House of Councillors and the House of Representatives. During this period, important political issues have remained untouched and foreign policy has suffered from neglect.

Exchanges between the two sides during the SII talks gave us the impression that the United States is intent on acting as the government of Japan, filling a void left by its importent counterpart.

Often during the talks it appeared that the Japanese consumers were speaking through the mouths of the U.S. representatives, and by this means, voicing their complaints against the Japanese government.

While Japan pointed to the U.S. federal budget deficit and a shortage of both industrial investment and true export promotion during the talks, the United States countered with a number of demands intimately associated with domestic politics. Included were demands that Japan increase its public works expenditures do something about the astronomical price of land, simplify the distribution system and correct the gap in prices here and overseas.

**Intractable Stand-off**

Japanese negotiators immediately rejected these U.S. demands and it appears that Japan and the United States are at a stand-off. However, Japanese negotiators admit in private that 80 percent of the points made by the U.S. side are accurate and do indeed focus on areas that Japan should already be dealing with anyway.

But structural issues often involve complex relationships between different interests. Although the Kaifu administration is in a difficult situation because of the opposition parties' dominance of the upper house, it should nevertheless strive to exert political strength in adjusting the demands of various domestic interest groups.

The United States also should drop unreasonable expectations that the SII talks will result in immediate and visible improvement in the trade imbalance with Japan.

Such expectations can only lead to frustration, which can only worsen the trade friction between the two countries. Taking the long view is important for the success of structural adjustments.

## Article Presents Perspective on SII Talks

*OW0303210590 Tokyo MAINICHI DAILY NEWS in English 2 Mar 90 p 2—FOR OFFICIAL USE ONLY*

[Article by Noriko Hama, senior staff researcher at the Mitsubishi Research Institute]

[Text] It was in May 1989 that the Structural Impediments Initiative [SII] was first proposed by the United States Government vis-a-vis Japan. With almost a 10-month history of talks having been recorded, the time approaches for the Japan side to come up with something in the way of answers to the piercing questions that have been raised in the course of those talks. That the most recent talks just concluded amounted to virtually naught has already been fully documented in press reports. It will be intriguing to see to what extent Japanese policy-makers manage to remedy the situation over the coming months.

There can be little doubt that there is something very wrong with the macroeconomic workings of this country. For it defies logic that a national economy with so large a scale of excess demand should be running a trade surplus. The pressure of excess demand is being observed everywhere, most prominently in the labor market, but with no less significance in many of the major markets for manufactures.

Under such circumstances, we should clearly be importing more than we export, with the resulting trade deficit reflecting the strength of domestic excess demand. And yet, the fact is that we continue to run a large trade surplus. This, of course, is another way of saying that our domestic markets are not as receptive to imports as is warranted by prevailing macroeconomic conditions. To this extent, claims on the U.S. side that ours is not an adequately open economy clearly holds validity.

Such a statement will doubtlessly provoke immediate rebuttal to the effect that our trade surplus is actually shrinking quite rapidly. This, of course is perfectly true. Customs value figures released last month reveal that Japan's trade surplus registered a decline of no less than 89 percent in January over the same month in 1989. While there were a number of special factors to account for this very significant shrinkage, it can by no means be brushed aside as a one month aberration. The trend towards a smaller surplus had been clearly in evidence since last year.

However, the important thing to take note of here, is that the decline in our trade surplus, significant as it is, does not in any way indicate that our domestic markets have become less burdened with structural barriers against import penetration. That nothing has been done in the intervening period to change the fundamental nature of these markets and the way business is conducted in them is beyond question.

What is happening here is that the move by Japanese manufacturers to move their production facilities offshore is gradually beginning to bear fruit in the form of slower export growth and larger imports. No doubt the sheer strength of domestic excess demand has also worked to break down some of the heretofore impenetrable barriers. In any event, neither institutional reforms nor policy initiative has had much to do with the shrinkage in our trade surplus. It therefore misses the point altogether to assume that the smaller trade surplus will serve to appease the U.S. side in the SII negotiations. In a sense, the size of our trade surplus is no longer at issue here. The focus of attention is not what are perceived to be deficiencies in the Japanese market which inhibit fair and open competition.

The U.S. side is reported to be adopting a strictly "result-oriented" attitude toward these current negotiations. If we are to take the U.S. side at their word, and there is no reason to assume that we may not, that result is to have the Japan side commit themselves to the institutional reforms that the U.S. negotiators have called for. Insofar as this remains the issue, what happens to our trade balance is largely irrelevant.

Another aspect of the SII talks that places the Japanese side in a difficult position is the demand for larger public works spending. Especially with regard to the immediate present, nothing can jeopardize economic management more than a further stimulus to the already skyhigh level of domestic demand. What we need here, far from an expansion of public works programs, is a cutback in government spending. This will serve to eliminate at least some of the inflationary pressures besetting the domestic market.

As it is, monetary policy is already being forced to cope single-handedly with the problem of inflation. The last thing that it needs is for fiscal policy to inject additional stimulants into the economy. In this regard, it is unfortunate that this issue had to be raised as a part of the SII talks. It can only serve to complicate the situation at this juncture.

In any event, of overwhelming importance here is that some political initiative be shown in tackling the structural issues that have been placed on the SII negotiating table. The very issues that were so specifically and completedly avoided by the LDP and the opposition alike throughout the election campaign cry out to be addressed.

The decline in our trade suprlus is clear proof of the fact that market forces are already at work to bring about fundamental change in the shape of this economy. Many traditional customs and institutions need to be revised in order to make the most of those changes.

Over the years, the Japanese side has habitually emphasized the unique quality of this economy's structure and properties, claiming that there are limits to what we can do in the way of opening up our markets. This posture could well backfire as our trading partners in their frustration begi to take us at our word, treating us as unique and alien, not to be negotiated with but to be cut off and isolated.

What is now needed is for politics to move to a higher plane than those on which the lower house elections were so rigorously fought.

## MAINICHI Editorial on Failure of SII Talks

*OW0103050790 Tokyo MAINICHI DAILY NEWS in English 27 Feb 90 p 2—FOR OFFICIAL USE ONLY*

[Editorial: "Impasse in SII Talks"]

[Text] The third round of American-Japanese talks under the Structural Impediments Initiative [SII] evidently ended with the American side greatly dissatisfied. The sight of the representatives of the two countries, which strongly depend on each other, "putting their hands into the other side's pockets" and arguing furiously has not been seen before.

Although a danger akin to walking on a tightrope exists, both countries should continue discussions calmly and objectively in order to arrive at results beneficial to both sides. In the background, as these talks started, was the imbalance between Japan's excess of exports over imports and America's huge fiscal and trade deficits. A steady improvement has recently been seen.

When the New Maekawa Report was drawn up, the late Haruo Maekawa was concerned about Japan's balance of accounts being about 4 percent in comparison with the GNP. The comparative ratio has dwindled much faster than Maekawa's forecast, however, and in fiscal 1989 it was about to fall below 2 percent. The American rebuttal is likely to be that "the huge deficit in trade with Japan has not been reduced at all." This is like the argument that when water in a cup is halved, some will say that it is "half empty" while others will insist that "it is still half full." Actually the American deficit with Japan has been steadily decreasing, from 56,300 million dollars in 1987 to 52 billion dollars in 1988 and 49 billion dollars in 1989. Attention should be given to this trend. Moreover, American exports last year expanded 13 percent worldwide and 18 percent toward Japan.

The improvement of macro figures does not mean, of course, that there is no need for Japan to take drastic measures to adjust the trade imbalance.

The American demands include, among others: (1) greater Japanese infrastructure spending, (2) in order to correct the exorbitant land prices, taxation on the same level as farmland, (3) abolition of the Japanese Large Retail Store Law so as to improve the distribution system, and (4) strengthening of the Anti-Monopoly Law in order to curb exclusionary business practices. These demands are essentially what many Japanese people have been seeking from the government.

There are many improvements that Japan can and should make on its own initiative. These involve the bad quality of housing and the living environment represented by the image of "rabbit hutches," the inferior sewage system and lack of parks in comparison with other industrially advanced nations, long working hours, high price structure that results in high living costs, and a situation in which the money earned by the people is not being fully used for the sake of the people.

These are problems that the Japanese government should take up positively and endeavor to solve without having them pointed out by the United States. It is because efforts for structural improvements in these fields have been neglected that domestically the people's sense of livelihood is poor in comparison with the GNP and externally economic frictions have arisen.

The wall built up by certain groups of politicians, bureaucrats and industrialists needs to be torn down, just as the Berlin Wall was. The system up to now that has placed emphasis on enterprises and production should change to a system devoted to the people's livelihood and consumption.

Even if there are domestic criticisms, the ability to match national interests with the direction sought by the world is needed by the Japanese politicians of the 1990s. Prime Minister Toshiki Kaifu would do well to keep this in mind on his forthcoming visit to the United States.

## * SII Policies To Strengthen Competition

*902A0067A Tokyo SHUKAN TOYO KEIZAI in Japanese 2 Dec 89 pp 68-71—FOR OFFICIAL USE ONLY*

[Article by Fair Trade Commission councillor in charge of liaison, Yoji Sugiyama: "U.S.-Japan Structural Impediments Initiative Policy"]

[Text] It is precisely the strengthening of competition policy which is the central task of the structural consultations.

Realization of fair market-competition is required for Japan's rapid advance.

The problem of Japan's excessive saving exerts an influence on international politics and economy.

Policies to protect the interests of consumers can be said to be Japan's most important task.

It is said that when the Meiji restoration began, the leaders of the Japan of that time were intent on having, for the purpose of civilization and enlightenment, "a system of laws and system of customs in balance with the world" (Ryotaro Shiba, "A Nation Called 'Meiji'"). There is no doubt that the difference between Japan and other countries was unimaginably great in the early Meiji era. Since then, a long period of over a century has passed, but when, following common principles in so far as possible, we inspect things from the standpoint of the method of competition which is referred to as the "the constitution of the national economy," we cannot deny that within the domestic-foreign differential, trading practices, enterprise-group relationship and behavior of industry bodies which occur in Japan, not to mention the recent problem of Y1 bids and the predisposition for collusion in the construction industry, there are many things which to the countries of Europe and America are difficult to understand, and appear to be unfair. In such a situation, I imagine that Japan's fairness is also being called into question at the U.S.-Japan structural consultations.

### A Trend of Attaching Importance to Competition Can Be Seen in the World

The second session of the U.S.-Japan SII was held on 6 and 7 November at the U.S. State Department in Washington. The consultations are scheduled to continue for a number of sessions after this, and to become involved in discussions which go into things more deeply. At the present stage, it is extremely difficult to touch upon their future prospects, conclusions, etc. However, I was probably not the only person who attended the first session in Tokyo and the last one in Washington and felt keenly that the true role of competition policy is being called into question.

At the OECD, a policy of active adjustment (PAP) was already taken up in the mid-1970's in order to solve the problem of low growth. In regard to individual governments, we can probably cite such things as Prime Minister Thatcher's market policy and relaxation of regulations, and Reaganomics, which revolved around relaxation of regulations and a policy of large tax reduction. And the content of the EC's plan for a single market in 1992, can, after all, also be viewed as a new development of policy on competition which boldly tries to promote relaxation of government regulation. As is widely known, in Japan, too, the "Advisory Group on Economic Structural Adjustment for International Harmony" was created in order to cope with structural changes in the world economy after the Plaza Accord, and the Maekawa Report was submitted in April, 1986.

It seems to me that the central task of structural-reform policy comes down, after all, to strengthening competition-policy in the broad sense. Viewed in macroeconomic terms, it is a question of the balance of the supply side and the consumption side; viewed in microeconomic terms, it is preservation and expansion of fair market-competition. I think it is precisely by realization

of and adherence to the basic principles of a market economy that there are prospects for development of the national economy as a whole, but the oil crisis of the 1970's ended up making the market function of a free economy into something extremely inadequate. Since it is a nation with few resources, Japan, too, suffered a great shock from the oil crisis, and official regulations were strengthened in various sectors.

Now, however, there has occurred a renewed appreciation and a reffirmation of the effectiveness of the basic principles of a market economy. Such a trend can be seen even in developing nations and some Eastern European socialist nations, not to mention the advanced nations of Japan, America and Europe. One can probably say that there has been a reconsideration of the importance of a competition policy rooted in the universal values of democracy, which is based on freedom and equality. The pressure on nonmarket-type economies and noncompetition economies for liberalization has grown stronger. In the 40-odd years since the end of World War II, market economies have gradually overwhelmed nonmarket (socialist) economies (from an article by the U.S. State Department's (Francis) Fukuyama and so on).

On 17, 18 October, a symposium on "competition policy and economic development" was held jointly by the Paris OECD Committee on Competition Policy and its Development Center. In addition to such major advanced countries as Japan, America, England, Germany, France and the EC, and such developing nations as the Republic of Korea, Mexico and Brazil, Hungary and Poland also participated. That a meeting was held with such wide participation, was indeed epoch making. Lively discussion was held concerning the relationship of industrial policy and trade policy to competition policy and the sense produced by price mechanisms and relaxation of government regulations. Interest in competition policy has gradually become a big trend.

America's active-growth policy of the 1980's produced the longest peacetime expansion of business conditions in history, which has lasted more than 7 years, and the world, too, has benefited from it. But, on the other hand, it also produced a large imbalance in the world economy. It manifested itself in a huge amount of foreign debt with the debt problem of developing nations, and America's continued foreign deficit.

### The Significance of the Trade Surplus With America

In particular, the trade imbalance between Japan and America is a problem. According to the IMF forecast on the current account, it is expected that in 1990 Japan's surplus will increase by $17.7 billion over the previous year to become $89.7 billion; in contrast to which, America's deficit will, conversely, worsen by $13.6 billion to become $138.7 billion. One cause is that even if America's trade deficit declines slightly, its interest payments on foreign debt will increase. Japan's trade surplus will decline slightly this year, but it exceeded $90.0 billion for 3 years in a row up to last year, and has become the world's largest surplus. In the 2 years of 1980 and 1981 Saudi Arabia recorded large surpluses of $72.5 billion and $81.2 billion, and was criticized for disturbing the world's system of trade and finance, and the scale of Japan's surplus exceeds that. On the other hand, when viewed from the American side, as a result of exchange-rate adjustment since the Plaza Accord of 1985, trade with the EC has reversed to become a surplus, and a considerable improvement in the balance of trade is seen even in trade with Canada and the NIES [newly industrializing economic societies]. But in regard to trade with Japan, alone, there is, contrariwise, even fear that the deficit will expand, albeit slightly. Especially since trade with the EC has seen great improvement, U.S. criticism of Japan is firmly becoming a social issue, and U.S.-Japan economic relations are becoming so grave that America is seeking Japanese structural adjustment. In order for America to free itself from this difficult situation, it has no choice but to **turn the trade deficit into a surplus** and **repay its stupefying foreign debt**.

### Japan's Response

It is pointed out that compared with the first session of the consultations, in the second session Japan has become conspicuously defensive.

In spite of the fact that America stated, for example, that the rate of dissemination of sewer systems in the economic superpower, Japan, was 40 percent, too low, and that this kind of deficiency of social capital should be solved, Japan's response was negative, so America did not hide its disappointment and annoyance.

In regard also to the problem of land prices so high that they strain belief, America may have gotten the impression that, in spite of the fact that an urgent response is needed, and that it will also exert a serious influence on the Japanese economy and the world economy over the medium and long term, the Japanese side's perception is too optimistic.

In regard to the distribution system, while referring repeatedly to such things as the report of the "Advisory Group on Government Regulation and Competition Policy," which was recently published by the Fair Trade Commission, the U.S. side requested that the relaxation and abolition of government regulations be strongly promoted in order to further expedite the entrance of new players from other countries.

Furthermore, in response to being told by the Japanese side that it was planning projects to expand imports, Assistant U.S. Trade Representative Williams added that in some aspects Japanese companies' expansion of imports from America by administrative guidance was unavoidable as a short-term measure, but still, it would not constitute a drastic measure for solution unless the structural barriers to imports were removed.

A joint survey by Japan and America on Japan's domestic-foreign price differential, which was the focal point of the price-mechanism problem, was announced during

the structural consultations. One can probably say that the fact that the result obtained—Tokyo is 1.417 times as expensive as America—was virtually the same as the result (Tokyo is 1.4 times higher) of a survey that had already been conducted by the Econonomic Planning Agency, apart from technical evaluation, gave the impression of the existence of a domestic-foreign price differential. As might be expected, such complex structural barriers as Japan's land problem, distribution system and exclusionary trade practices are probably pushing up Japanese prices.

In regard to the problem of exclusionary trade practices, there was a request from the U.S. Justice Department that it would like for the Japanese side to investigate and promote measures to strengthen the operation of the entire Antimonopoly Act, including strengthening application of such things as criminal penalties and civil suits. The Fair Trade Commission countered this by explaining the differences of the entire Japanese legal system, including the Antimonopoly Act, and also explaining the high maneuverability of a system of imposing fines.

However, in regard to unfair trade methods which are typical acts of exclusionary trade practices, the Fair Trade Commission stated that it planned to establish a study committee, to begin, in subcommittees, to analyze and investigate company groupings in production and distribution, and to create guidelines that would be easy for domestic and foreign businessmen, consumers, etc., to understand. The content of the Fair Trade Commission's statement was transmitted to the U.S. side in detail beforehand, so I think it was able to gain a favorable evaluation.

Concerning the enterprise-grouping relationship, Assistant Treasury Secretary Dallara gave a detailed explanation in a paper which he had prepared in advance. He stated that he does recognize the positive aspect of enterprise groupings, but one cannot overlook the exclusionary side. He said that there was no problem with mutual holding of stock by companies based on an enterprise-grouping relationship so long as it was done in a competitive manner, but that if it became an excessive means of protection against mergers and acquisitions, inefficient management would be preserved, so it would also have repercussions on markets for products and services, and would be apt to become protective and exclusionary.

At receptions and so on, those attending from the U.S. side said that the average rate of profit for Japanese enterprises amounts to only about one-half that of European and U.S. companies, and suggested that this is probably because, in contrast to European and U.S. companies, which pursue short-term profit, Japanese companies are trying to expand their market share in a short-term manner by straining themselves. They also stated that the fact that inefficient management was preserved, and that there existed high-cost mutual holding of stock, and that there was a tendency to become exclusionary toward domestic and foreign companies outside enterprise groupings ran counter to the world trend of rapidly progressing globalization, and stressed that a sound mergers and acquisitions market, in which the managerial competence of companies is called into question, is necessary and indispensable to a further opening of Japan's markets.

**U.S. Joint Production and the Antitrust Law**

The items which the Japanese side pointed out in regard to America also covered various topics, but what attracted attention in relation to competition policy was, for the most part, as follows.

In America policy relating to competition is far more strict than in Japan, but even so, as might be expected, there are problems in connection with government regulation. The Japanese side pointed out that the fact that America sought from relevant countries self-regulation of exports of a number of important items, such as iron and steel, automobiles and machine tools, and implementing this was a problem in terms of competition policy. Of course there are also such vindicating arguments as the theory of government compulsion, but if one protects a specific enterprise or specific industry sector, whatever happens over the short term, there is a danger that it will diminish the competitiveness of the U.S. economy as a whole in the medium and long term. However, there was only a vague reply from the U.S. side.

It was also pointed out that such regulations as the 1973 measure to ban Japanese exports of soybeans, the ban on export of Alaskan oil, and the overly strict nature of America's issuing of licenses to export maintenance parts in connection with Cocom [Coordinating Committee on Export Controls] export restrictions, are also undesirable from the viewpoint of competition policy.

In response to the Japanese side's asking, further, whether it was not necessary for American enterprises, under set conditions, to increase their competitiveness and compete internationally with companies from Japan, Europe, and the rest of the world, the U.S. side stated that the triple-indemnity policy is a strong deterent power in regard to hard core cases like price cartels, and that the EC and West Germany, too, are levying high administrative penalties on behavior which is highly malignant in terms of competition policy. The U.S. Government said that it is currently investigating whether the triple-indemnity system of the Antitrust Law has become an obstacle to enhancing productivity by joint production. However, in regard to joint production which increases efficiency, there was the clear answer that even under the existing Antitrust Law, there is virtually nothing about which U.S. companies should be worried, and that, in any case, the Antitrust Law has not become an obstacle to enhancing U.S. productivity.

I suspect that the Japanese side has the misunderstanding concerning readjustment of the triple-indemnity system that U.S. companies should be made

competitive by relaxing the operation of the Antitrust Law. At a time when globalization of the world economy is progressing, and a relationship of international interdependence is becoming ever stronger, even if America were to handle joint production in the same way as research and development, it would only amount to the law being applied by the rule of reason, so it would certainly not amount to weakening the Antitrust Law.

Rather, according to my view, we should judge that a more accurate application of America's competition policy is called for, and that a stricter competition policy has become necessary even in America. The importance of competition policy h s grown stronger in every place throughout the world because of the rapid progress of industrial technology, the increased importance of information, the evolution of a greater use of networks, internationalization of transactions and globalization. In the midst of such a trend, ascertaining whether a certain action in a transaction is pro or anti competition is becoming complicated and possessed of many divergences, but it has become more and more important.

**Even High-Growth in a New Form**

Professor P. (Ludlow) of the European Policy Research Institute and others are wildly sounding an alarm, saying that the world will, ultimately, probably move in the direction of blocs, with three poles centered on Japan, America and Europe. It was also pointed out at the structural consultations, there is fear that if Japan's excessive saving continues in this way, it will increase this danger all the more. The imbalance of the IS [investment-savings] balance has transcended the category of an economic problem, and is exerting a great influence on international relations as a whole, so it is beginning to have meaning in terms of international politics. Already, Professor R. (Don Bush) (of MIT) foresees that it will become necessary to take up this problem at a summit of major advanced countries. Japan's internal imbalance has never been viewed internationally as a problem as much as it is today. Large foreign surpluses over the medium and long term are a sign of a national economy's illness in the same way as large deficits. The content of what the U.S. side is calling for in the U.S.-Japan structural consultations is, in point of fact, the unsolved hard core which Japan, itself, has been unable to handle up to now by structural adjustment. If competition policy is thoroughgoing, it will, as is also prescribed in Article 1 of Japan's Antimonopoly Act, "guarantee the interests of Japan's consumers, and promote the democratic and sound development of the national economy." If we take it that putting democracy into practice in economic activity is the basic principle of competition policy, as not only Ambassador Armacost, who attended the U.S.-Japan SII, but also Prime Minister Kaifu, has emphasized more than once, it is a foregone conclusion that protection of the interests of Japanese consumers will be the most important task. Making Japan's consumption side sound will probably be a plus for Japanese companies too.

As the U.S. side pointed out repeatedly in the last session of the consultations, with Japan's latent strength, even a second period of high growth is within the realm of possibility if Japan puts into practice measures to expand social capital by such government and private-sector activities as effective utilization of land by drastic reform of the land-tax system, etc., improvement of housing, and of such infrastructure as sewer systems, roads and parks, and actively pushing for the "creation of hometowns" policy.

When we look at this problem of imbalance in reverse, from the U.S. side, even though it is accompanied by political problems, it may be easier for America to realize a balance of savings and investment than for Japan to solve its excessive saving rate, because America has a wider tax base than Japan, and its system of tax collection is also more efficient. However, as Professor (Don Bush) also points out, in doing this suddenly there is a danger of excessively throwing international financial and capital markets into chaos. If America were to alter its basic policy, and suddenly begin a policy of moderation, there is also danger that it would trigger a plunge in the dollar, the basic currency. Japan and America, which are in a firm interdependent relationship which is difficult to sever, cannot escape this kind of spell. It is now Japan's turn to provide a huge domestic market to other countries. Moreover, by perfecting competition policy, and providing that market in accordance with market-economy principles, Japan will also be able to reduce, to some small extent, the possibility of chaos in the world economy. We have already experienced Black Monday and a mini-crash.

## Daily Views U.S. Trade Deficit Decrease

*OW2202015890 Tokyo THE DAILY YOMIURI in English 20 Feb 90 p 6—FOR OFFICIAL USE ONLY*

[YOMIURI SHIMBUN 19 February editorial: "Good News From the U.S.?"]

[Text] Althrough the United States' total trade deficit has decreased, there is no indication that its deficit with Japan is likely to narrow. Moreover, the two governments remain as far apart as ever over ways to resolve the bilateral trade imbalance.

The total U.S. trade deficit was $108.5 peak. Some people may rejoice at the decrease, but in fact there is little reason for optimism.

The pace at which the deficit is decreasing has slowed, and the figure could increase again if the U.S. economy takes a turn for the better and its imports increase.

The most serious problem is that the U.S. trade deficit with Japan in 1989 was $49 billion—nearly half its entire deficit.

**Too Close For Comfort**

Ironically, one of the causes of the deficit may be the extremely close relations between the two countries.

For instance, 60 percent of the United States' imports from Japan are machines and parts necessary for U.S. companies and factories run by Japanese firms there. Another 20 percent are videocassette recorders, facsimile machines and other products in which Japan almost monopolizes the world market.

Since these products have effectively become staples for U.S. consumers, imports of them from Japan will not decrease.

The third round of the Structural Impediments Initiative talks between Japan and the United States, postponed because of Sunday's general election, is scheduled to open late this week, marking the resumption of negotiations over Japan-U.S. friction.

**Seal The Cracks**

It is necessary to bring the friction under control before it is too late, so that the cracks between the two allies will not grow bigger.

The United States lays the responsibility for its deficit with Japan on this country, which has consistently run a trade surplus, saying it is difficult to sell products in Japan because of the closed nature of the Japanese market.

Japan, on the other hand, blames the United States for the deficit, pointing out the comparatively weak competitive power of U.S. companies and the large deficit in the federal budget.

Unfortunately, this difference of views, and the trade imbalance itself, have been intensifying trade friction between Japan and the United States.

We hope the two countries will adjust their opinions on these basic problems rather than pressing for short-term results.

## Soviet Union

### Discussion on Northern Territorial Issue

*OW2202105890 Tokyo NIHON KEIZAI SHIMBUN in Japanese 18 Feb 90 Morning Edition p 26—FOR OFFICIAL USE ONLY*

[From "Sunday Nikkei" page: "Debate" on the northern territorial issue pending between Japan and the Soviet Union between Prof. Hiroshi Kimura of Hokkaido University and Mr. G.E. Komarovskiy, councillor of the Soviet Embassy in Japan; date, place not given]

[Text] Perestroyka (restructuring), promoted by Supreme Soviet President (and CPSU General Secretary) Gorbachev has not only created worldwide detente, but also has caused the promotion of reunification of East and West Germany. Some people even suggested the "Yalta System" had come to an end. However, the northern territorial issue still exists between Japan and the Soviet Union. Mr. G.E. Komarovskiy, councillor of the Soviet Embassy in Japan, and Prof. Hiroshi Kimura had a debate on how this pending issue should be handled:

Kimura: It is 45 years since the war ended. However, due to the obstruction of the terrritorial issue, Japan and the Soviet Union have not concluded a peace treaty. Certainly, we cannot call such relations normal between neighboring nations.

On the other hand, I doubt the wisdom of regarding it as abnormal. With regards to the amount of trade with Western nations, the Soviet Union's third major partner is Japan, only next to West Germany and Finland. Moreover, our two nations have signed a cultural agreement. Since Mr. Gorbachev became general secretary, our two nations have signed five to seven treaties or agreements, including a treaty on taxation.

Komarovskiy: The Soviet Union and Japan have been gradually improving their relations. For example, Foreign Minister Shevardnadze met with his Japanese counterpart four times in 1989 alone. Besides, a Supreme Soviet delegation, headed by Mr. Yakovlev, a Politburo member, visited Japan, and Mr. Lukyanov, first deputy chairman of the Supreme Soviet, attended the imperial funeral for the late Emperor Showa last year. High-level political dialogues between our two nations have been held regularly and at full scale.

Kimura: Since Foreign Minister Shevardnadze's visit to Japan in 1998, our two nations have started concrete talks on concluding a peace treaty, which is the major issue pending between us.

Komarovskiy: Since then, I think our relationship has entered a new stage, qualitatively speaking. A working group was set up for talks on concluding a peace treay, and the group has already held four sessions.

Kimura: This working group has been criticized for not making any progress in talks on the "northern territorial issue." What do you think?

Komarovskiy: The working group is not an organ set up to handle the so-called territorial issue, but to discuss the conclusion of a peace treaty. However, I think the discussions held so far are very useful because we are now beginning to understand Japan's position on the territorial issue and we now understand the cause and motive of your demand. In the past, we insisted only on our own position, and a wide gap existed between us. However, this gap is now beginning to narrow.

Kimura: Is that the reason why the Soviet Union now officially admits that the northern territorial issue has not been settled yet and that the problem does exist? It has been written in IZVESTIYA that "following Foreign

Minister Shevardnadze's two visits to Japan, it has become clear that the northern territorial issue does exist between the two nations."

However, Mr. Boris Yeltsin, who visited Japan recently, refuted the idea that the foreign minister was in a position to make such remarks officially. We were surprised because we could not understand what had actually happened.

Komarovskiy: The Soviet foreign minister's remarks reflect the opinion of the Soviet Government. However, Foreign Minister Shevardnadze's remarks on the territorial issue during his visit to Japan were as follows: "Japan has its own position, and it has the full right to state its own views. However, we have our own position too, and we shall state our own views." I don't think that it should be concluded on the basis of his remarks that the Soviet side has admitted the existence of the northern territorial issue."

Nevertheless, compared with the Soviet position five or six years ago, the Soviet Union has changed its position. In the past, no discussions at all were held with the Japanese on the "geographical phase" of the peace treaty. But now we have full discussions on this factor.

Kimura: Does it mean that, although you did not admit the Japanese demand as it is, the Soviet Union not only denied the existence of the territorial issue, but also denied the right for the Japanese side to bring up this issue five or six years ago, and that, from the political viewpoint, the Soviet Union now admits that the territorial issue does exist between our two nations and that this issue has obstructed the development of the relations between our two nations?

Komarovskiy: Let me put it this way: We admit that the Japanese side has such an idea. Not only do we admit this, but we have extensively introduced the Japanese claim on this issue to Soviet citizens.

Kimura: When the then Prime Minister Hatoyama visited the Soviet Union in 1956, it was solely due to the failure in reaching an accord on the territorial issue that our two nations failed to conclude a peace treaty and were only able to issue a joint statement. In recalling this incident, I think the working group is probably engaged in a serious discussion of concluding a peace treaty on the precondition that the territorial issue is not included.

Komarovskiy: The Soviet Union has agreed to the establishment of a working group on the peace treaty because it feels that, in order to drastically improve relations between our two nations, it will be necessary to conclude a peace treaty.

Kimura: Will it be all right for us to regard your present position as being in fact quite close to recognizing the existence of the territorial issue?

Komarovskiy: The Japanese side is saying that the most important issue regarding the principle must be settled first, and then other issues will be taken into consideration. However, our approach is a little different. We feel that to resolve the most difficult issue the ground should be level first, and then we should consider how appropriate circumstances or conditions could be created. A peace treaty should not be limited to the "geographical phase" alone.

Kimura: When we recall past negotiations between Japan and the Soviet Union, we notice that the Soviet Union adopted the "eat-and-run" strategy on many occasions. In other words, the Soviet Union would try to gain time and do nothing for Japan by settling those issues advantageous to them while putting off talks on those issues Japan most wanted to settle.

For example, we can point out the Siberian Development Project promoted by former Prime Minister Tanaka in the 1970's. It was believed that Japan's economic cooperation would lead to the settlement of the territorial issue. However, the Soviet Union agreed to the Siberian Development Project but did nothing at all that was unfavorable to it. [sentence as published] We, the Japanese, have tasted such an experience.

Komarovskiy: Frankly speaking, the development of relations between our two nations in various fields depends on the conclusion of a peace treaty. In addition to the ideas brought up in the past, Mr. Yakovlev made a proposal for a "third method" to settle the territorial issue. The essence of this idea, I think, lies in the plan to hold talks on concluding a peace treaty and to simultaneously promote cooperative relations in various fields in a constructive way.

In my opinion, this idea is the most realistic and constructive.

Kimura: Since the Soviet Union did not sign the San Francisco Peace Treaty, it has, theoretically speaking, the right to hold talks on South Sakhalin and all the Kurile Islands. However, such talks will contradict Japan's relations with the United Nations, of which Japan is a member. In this connection, the demand for the return of the territories is restricted to the four islands alone.

Japan has made its compromise and concessions up to the point that "nothing more can be done." Meanwhile, the Soviet Union adopts the method of bazaar sales. First, they will ask for an unreasonably high price, and then, even if the price is reduced by half, they will still try to retain their profit by saying "How about two or three islands?" For Japan, there is no other choice but to demand the lump-sum return of all four islands.

Komarovskiy: The position of demanding the lump-sum return of all four islands indicates no compromise and no concessions, and certainly sounds very rigid. As far as Soviet public opinion is concerned, and as was pointed out by Mr. Yeltsin during his visit to Japan, the majority of the Soviet people feel that no territorial issue exists. In

this connection, the Soviet Government also has to take public opinion into consideration.

Kimura: Soviet public opinion is in the wrong. It has resulted from the wrong instructions of such leaders as Stalin and Brezhnev, and the blame should not be imposed on Japan. Soviet leaders should persuade their people by openly giving speeches, admitting that it was Stalin's mistake in taking the four northern islands by force and continuing to occupy them, and also stating that its friendly relations with Japan will be greatly improved when the four northern islands are returned.

As for the timing and method of returning these islands, talks should be held to work out what is acceptable to both sides. As a nation, the Soviet Union has to save face and preserve its pride. It will also have to make efforts to persuade its people. The same situation also exists for Japan. If the Soviet side fails to start making concessions, there is a possibility that Gorbachev's visit to Japan in 1991 will have miserable results.

Komarovskiy: In Russia, there is a saying that "Politics is the art of distinguishing alternatives." Under any circumstances, a politician should be able to distinguish what can be done from what cannot be done. The Soviet Government has to take into account many factors, including the domestic situation and public opinion. It has a pile of tasks to accomplish.

Take, for example, the Soviet Union's economic relations with foreign nations. Our task is to join the world market. In this connection, we want to establish positive, cooperative relations in various fields, including joint ventures, trade, and finance with various nations, advanced capitalistic nations in particular. So far, we have been promoting better economic cooperation with Europe than with Japan. We hope that Japan will take a little more positive approach in this regard.

Kimura: The current Soviet diplomacy of new thinking is different from the "Nyet diplomacy" of the Gromyko period. The insistence on ideology or principle has been toned down, and there is now a flavor of economic rationality and the idea of considering profit and loss. Regarding your relations with Japan, the time has now come for you to take economic relations into consideration, shift your concern over rationality in profit and loss to settlement of the pending political issue, and make your resolution.

Komarovskiy: I am in favor of speeding up talks on concluding a peace treaty. For this purpose, we have made a proposal to exchange the draft peace treaty. I am sure it will give an opportunity for the working group to speed up its consultations.

Kimura: I have no idea whether the draft is being kept a secret. If the draft worked out by the Soviet side fails to mention anything about the return of the four islands and merely including such categories as economic or technological exchanges, only what the Soviet Union can obtain from Japan, then it will be quite natural for the Japanese Foreign Ministry to reject it.

Komarovskiy: Thirty-three years have elapsed since 1956. I am sure the draft will be quite different from the draft peace treaty worked out then.

Kimura: The "geographical phase" is mentioned in it, isn't it?

Komarovskiy: Of course. Since the national border is determined by the peace treaty, it should be stated clearly in that treaty. It is speculation, but I think there must be a great difference on this in the drafts worked out by each side. Speaking from my experience as a diplomat, no matter how difficult the problem, we cannot proceed with our work unless we have the drafts to compare.

What is important for our two nations is not limited to the geographical problem alone. What is also important, I think, is to settle other problems, including the economic and disarmament issues. In particular, we have to settle such problems as disarmament in the Asia-Pacific region in coordination with the United States.

Kimura: We should maintain cooperative relations while you are promoting perestroyka.

Komarovskiy: No matter what happens, the Soviet Union would never turn back from perestroyka. The difference of opinion lies in whether it should be promoted at a faster pace or in a more cautious way. Now, it has already become a consensus among the people.

## Doubts Continue in Japan About Soviet Economy

*OW1702084890 Tokyo MAINICHI DAILY NEWS in English 14 Feb 90 p 7—FOR OFFICIAL USE ONLY*

[Text] Japan continues to have reservations about providing financial aid to the Soviet Union despite its apparently sincere political and economic reform efforts.

Japan is worried, for one, about the chaotic state of the nation's economy.

Inflation in the Soviet Union, due to a government attempt to reduce its 120 billion ruble deficit by printing more money, has climbed to a current 7.5 percent.

There is also widespread public dissatisfaction with the shortage of consumer goods, ranging from sugar and meat, to shoes, underwear, televisions and refrigerators.

Its GNP, which was 2.4 trillion dollars in 1987 according to the U.S. Central Intelligence Agency, grew only 3 percent in 1989, falling short of a predicted growth of 7 percent.

### Financing

The Soviets have shown some signs that they desire to enter the International Monetary Fund, although,

according to an official at the Ministry of Finance: "They have not yet made any formal request or publicly revealed their intentions in this matter."

The posisbility of Soviet participation in the organization is viewed with some apprehension, especially because there are fears that granting permission to the leader of the East bloc to enter the fund may cause other bloc nations to demand admission as well.

The Soviet Union also may have a role in the formation of a European development bank, which is being planned by Western leaders to provide economic aid to Eastern European nations making the transition to more democratic, free-market oriented governments.

Many analysts believe that Soviet participation in the bank, in some form, is inevitable.

The French Government appears to look favorably on Soviet participation, while the U.S. has asked that its role be limited to merely an investment one.

The Soviets have also come, unofficially, to Japan in their search for aid, implying that they will conclude an investment protection agreement but before it will consider something such as this, the Ministry of International Trade and Industry has said the Soviet Union must meet several conditions.

The ruble must be allowed to become a currency of international exchange; the electric and gas supply infrastructure must be improved as must be roads and housing. Wages must also be increased, the ministry said.

### Steel, Oil

The value of Soviet imports of Japanese steel in 1986 totaled 2,480,000 dollars; by last year this figure had fallen to only 900,000 dollars.

According to industry officials, the Soviets need less steel because they are shifting the focus of their economy away from captital goods production and toward that of consumer items and electronics, to meet, what has proven to be at times a violent, popular demand for such items.

This trend is likely to continue and imports of Japanese steel will probably not return to former levels, said the officials.

The Soviet Union is responsible for 20 percent of the world's oil production, or 12,150,000 barrels of oil per day; 25 percent of this oil is exported.

There are fears among Japanese officials that the price of Soviet oil may increase suddenly, because of falling production.

The Soviets are also selling more oil outside of the East bloc, where prices are kept stable, than ever before.

Most of the nation's oil is produced in western Siberia, which the government plans to develop more fully as exploitation of natural resources in the region increwases.

### Tourism

The growth of tourism between two nations is often a harbinger of closer economic ties.

In January when former Liberal-Democratic Party Secretary General Shintaro Abe visited the Soviet Union he was asked for Japanese cooperation in building a hotel in Moscow, a decision on which is still pending.

Commenting on the request, a Japan Airlines official said: "There are still a lot of doubts about political stability there. And, simply, its not clear whether demand is sufficient to generate a profit."

Furthermore, many Japanese industrialists believe that it will take a long time for the Soviet Union to develop the infrastructure needed, provided the political will remains, to change to a market based economy and therefore are in no hurry to invest in the country.

The Japan Travel Bureau, cooperating with Mitsubishi Corp. and others, is currently organizing a tour of East bloc nations during which participants will be given a chance to examine for themselves economic conditions there.

Thirty of the forty available spots on the tour, scheduled for March, have already been taken.

## Industrial Reaction to Soviet Reform Cited

*OW1902022990 Tokyo TOKYO SHIMBUN in Japanese 8 Feb 90 Morning Edition p 9—FOR OFFICIAL USE ONLY*

[Text] The CPSU, in an expanded Central Committee plenum held recently, adopted a draft platform envisaging shifting the Soviet economy to a command-oriented mixed economy. Within economic circles, there are many who welcome the move in a positive manner, like Mr Rokuro Ishikawa, chairman of the Japan Chamber of Commerce and Industry, who said: "This means a democratic advance in terms of politics and economics, and shows the political strength of General Secretary Gorbachev. I welcome this." On the other hand, when it comes to actual "business talks," there are those who hold rather cautious views, like a senior executive of a major steel company who said: "We need to watch the developments in the Soviet Union a little longer." This latter category, apparently, for the time being, wants to wait and see what will happen to Soviet economic policies in the wake of the Central Committee plenum.

### Major Trading Firms

On the reform move in the Soviet Union, the belief of trading firms is that this will lead to "a chance to expand

trade relations with the Soviet Union, which have been laggard compared with the United States and Europe." Japan-USSR trade in the 1980's has been sluggish as a result of such problems as the Soviet shortage of foreign exchange or the confusion that has arisen with the decentralization of government power on foreign trade to local agencies. However, in 1989, trade volume combining exports and imports exceeded $6 billion for the first time; consequently, there are feelings that trade is on the way up after hitting bottom.

As if reflecting this mood, joint ventures in such industries as fisheries (by Mitsui and Co., Ltd.), lumbering (by C. Itoh and Co., Ltd) and car rental services (by Nisso Trading Co.) are starting their operations in the Soviet Union, and plans are now under way for new projects in such areas as the production of contraceptive devices (by Mitsui and Co., Ltd.), the construction of hotels (by the same company), taxi services (by Marubeni Corp) and the production of thermos bottles (by Nissho Iwai Corp).

With former Foreign Minister Abe's recent visit to the Soviet Union having opened a way for negotiations on the northern territories question between Japan and the Soviet Union, the general trading companies are also hoping that full-scale Siberia development projects will open up.

**Electronics and the Electronics Industry**

Top executives of the electronics industry are currently pleased that Supreme Soviet Chairman Gorbachev steered the Central Committee plenum well, and are thinking that "the perestroyka (restructuring) line will continue, at least for the time being." However, they are also cautious, saying that "the draft platform itself is a delicate product of compromise between the conservatives and the reformists, and we will have to see future developments."

Of more interest to the industry, apparently, is the direction the rules of the Coordinating Committee on Multilateral Export Controls (Cocom) will head. "If the rules are eased more drastically, exports of such machinery as numerically controlled tooling machines can grow, which will lead to the alleviation of the problem of shortages of daily necessities in the Soviet Union," Satoshi Iue, president of Sanyo Electric Co., Ltd., said.

**Auto Industry**

There are no concrete plans for joint ventures, but because there had been talks about it even before the Gorbachev regime came to power, it is expected that talks about joint ventures will be brought out again in the future.

Exports of four-wheeled vehicles to the Soviet Union last year were the largest ever, amounting to 4,561 units. However, almost all of them were buses and trucks for Siberian development projects, and there were only 420 passenger cars. If economic reform gets on the right track, it is possible that exports of passenger cars will grow sharply.

On the other hand, because of the problems of foreign exchange and legal restrictions, "it will be some time before projects can become a reality," said a top executive of a major auto manufacturer, indicating that he wants to watch the situation closely.

**Steel Industry**

The industry is taking the position of watching the situation calmly, even though expressing a certain number of expectations on the outcome of perestroyka. An officer of Nippon Steel Corporation said: "Exports of steel products last year dwindled to about a half of those of the previous year. Such economic conditions will probably not change soon."

Exports of steel products including steel pipes to the Soviet Union were 2,480,000 tons in 1986; 1,974,000 tons in 1987; and 1,820,000 tons in 1988; but are estimated to have gone down sharply to about 900,000 tons in 1989.

This situation resulted from the Soviet economic policy of using foreign exchange to give priority to imports of daily necessities. The overriding views of the people of the industry are represented by the remarks of a major manufacturer's executive: "I do not expect this trend to be changed for some time."

There are, however, also those who express hopes for improvement in the situation. For instance, Reijiro Mori, vice president of Sumitomo Metal Industries, Ltd., pointed out that steel products are indispensable to projects for the exploration of oil, the major source of foreign exchange earnings, and said: "Sooner or later, the steel business with the Soviet Union will become active again."

**Banks**

Businesses of major banks, like commercial banks and long-term credit banks, have so far been limited to providing loans to the government. However, views are now emerging, exemplified by an official of a major bank who said: "There are prospects of borrowers increasing in step with the increase in trade volume of the Soviet Union and East European nations with Eastern nations."

From this viewpoint, it is likely that banks will look for new businesses in the area of trade financing, making the most of information they have gathered from their overseas bases.

In 1988, loans by West German banking institutions to the Soviet Union exceeded $4 billion, which was about 2.5 times the figure for the previous year. Last year's performance is estimated to have been even better than that for 1988. In comparison, businesses of Japanese

banks have been limited. It is likely that the banks will seek ways to improve their position under such circumstances.

### Soviet Academy Sets Up 'Japan Research Center'

*OW0203152890 Tokyo SANKEI SHIMBUN in Japanese 23 Feb 90 Evening Edition p 2—FOR OFFICIAL USE ONLY*

[by Tsutomu Saito]

[Text] Moscow, 22 Feb—With Supreme Soviet President and CPSU General Secretary Gorbachev expected to pay his first visit to Japan next year, the USSR Academy of Sciences set up in mid-February the new "Japan Research Center" [JRC] under its "Oriental Studies Institute" [OSI] (with Kapitsa serving as director) to further promote comprehensive studies of Japan, including Japanese history. In January, the "Japan and Asia Research Center" [JARC] was also set up at the "World Economics and International Relations Institute (generally known as IMEMO with Martynov serving as director). This clearly indicates that the Kremlin's think-tank has taken a position of attaching great importance to Japan affairs in "preparing for Gorbachev's visit to Japan".

Originally, there was the "Japan Department" under the OSI. However, the Department was abolished and the new JRC was started in its reorganization on 12 February. Mr. Sarkisov, director of the original Japan Department, was appointed as the center's first director. Taking the position of attaching importance to the Asian-Pacific region, the Institute also integrated the original Southeast Asia Research Department, Department of Various Problems in the Pacific, and Department of the Studies of Asian Socialist Nations into one and started the new "Center for Research on Southeast Asian and Pacific Problems" at the same time.

The JRC currently has 29 staff members. However, the center plans to increase its staff to about 40 in the future. As its initial project, the center plans to publish soon a collection of joint articles on the "Japan phenomena," including comprehensive analyses of Japanese politics, economy, culture, and history. Furthermore, while working in closer cooperation with the IMEMO's JARC, the Far East Institute, and Moscow University, the center plans to participate in working out the policy toward Japan for the Gorbachev administration prior to Gorbachev's visit there.

The JARC under the IMEMO will concentrate on practical matters such as plans for promoting economic cooperation and settling the northern territorial issue, the major problem pending between Japan and the Soviet Union. Meanwhile, the JRC under the OSI will concentrate on the strategy toward Japan and the study of Japan based on a historical viewpoint.

The Soviet Foreign Ministry has recently reorganized its department and sections in charge of Japan affairs. In January, the original "Japan Department" was abolished, and the two sections—the "Japanese-Soviet Relations Section" and the "Japanese Domestic and Foreign Policies Section" originally under the Department—were expanded into departments.

### Joint Venture With USSR Planned in Singapore

*OW2002033090 Tokyo NIHON KEIZAI SHIMBUN in Japanese 14 Feb 90 Evening Edition p 1—FOR OFFICIAL USE ONLY*

[Text] Chori Co. and a Soviet trading corporation have reached a fundamental agreement on establishing a trading company in Singapore to sell rare metals. The Soviet Union is one of the few nations that is rich in natural rare metal resources, but lacks know-how or business connections regarding their sales. Thus, Chori Co. decided to form a partnership with the Soviet Union to sell rare metals on the Southeast Asian market. So far, more than 20 joint venture projects have been formed between Japanese enterprises and the Soviet Union, but this is the first case of a joint venture company being formed outside of the two countries. The Soviet Union is seeking to exploit markets for its rich natural resources; thus, the number of joint venture trading companies will likely increase in the future. It seems that the recent decision will serve as a model case.

Chori Co.'s joint venture partner is Raznoimport, which is one of the Soviet Union's few trading corporations. The new company's capital is set at 10 million Japanese yen. Chori Co.'s and Raznoimport's investment will be 51 and 49 percent respectively. They will officially sign the agreement in the near future, to establish the company in April. The first year's sales are expected to reach 3 billion yen.

The rare metals to be sold are rare earths which have been drawing attention as superconductive materials, including tellurium, tungsten, and vanadium. These metals are all indispensable for producing high-technology products.

Chori Co. has thus far imported some 700-billion-yen worth of Soviet-made rare metals each year, and its import share has been substantial. The joint venture company will sell most of its rare metals to Japan so that Chori's total dealings in Soviet-made rare metals will increase significantly. Another appealing point of the recent agreement is the possibility that information regarding a vast amount of rare metal resources in the Soviet Union can be obtained. As a long-term objective, the company aims at development and export to the Soviet Union. The Soviet side initially wanted to establish the joint venture company in Japan. However, due to concerns about political problems between Japan and the Soviet Union, Chori elected to establish the joint venture in Singapore, which is close to Japan.

## East Europe

### First Joint Trading Firm Opens in Budapest

*OW2402131190 Tokyo NIHON KEIZAI SHIMBUN in Japanese 20 Feb 90 Morning Edition p 1—FOR OFFICIAL USE ONLY*

[Text] Tokyo Maruichi Shoji Co., a leading trading firm with its head office in Tokyo and with Mr. Yasuhiro Tani as president, has established a joint trading firm—the "TBT International" [name as published], in Hungary in cooperation with local enterprises. This is the first joint trading firm established between Japan and East Europe. This firm will export commodities, including Hungary's domestic agricultural products and commodities it has obtained from the Soviet Union through barter trade, to West Europe, China, and the Middle East. With the foreign exchange, the firm will import consumer goods to Hungary. While indirectly supporting the expansion of Hungary's trade with Western nations, the company wants to strengthen its trade channel with East Europe.

The trading firm has set up its head office in Budapest, and its capital amounts to six million forints (approximately 14 million yen). While Tokyo Maruichi Shoji Co. has invested 49 percent of the capital, the Hungarian side has invested 51 percent. The joint firm started its operation in early February.

There are two investors on the Hungarian side: One is the Boscope Co. [name as published] engaged in technical instructions in the livestock industry and also in sales of livestock feed; and the International Scientific and Technological Cooperation Public Corporation (TESCO) [abbreviation as published]. Each of them has invested 25.5 percent of the total capital.

The firm will mainly export foodstuffs produced in Hungary such as cheese, beef, honey, wine, and fruits. The joint trading firm will develop products suitable for sale on overseas markets. Plans for consigning production to Hungarian enterprises or farmers are now under consideration.

In order to reduce its debts to Western nations, Hungary has made efforts to expand its dollar-based trade. At present, it has gone so far as to temporarily suspend its ruble-based exports to CEMA nations. However, since Hungary has engaged in very few transactions with Western enterprises, it has had difficulties in expanding its exports because of a lack of sales channels overseas.

## China

### Reopening Economic Assistance for China Viewed

*OW2202051990 Tokyo THE JAPAN ECONOMIC JOURNAL in English 24 Feb 90 p 8—FOR OFFICIAL USE ONLY*

[Editorial: "Resuming Aid to Beijing"]

[Text] Encouraged by a recent U.S. Export-Import Bank decision to resume its loans to China, the World Bank is now considering reviving financial assistance to Beijing. Already, the bank has approved $30 million in humanitarian aid to help earthquake-ravaged Inner Mongolia.

But the U.S. Congress and West European countries are taking an extremely tough stance on human rights in China. Citing human rights abuses, the bank postponed a $60 million loan for agricultural development in Jiangxi Province.

Now, the U.S. Export-Import Bank has decided to go ahead with a loan to the China Offshore Oil Corp. for a natural gas exploitation project. The Western nations postponed that loan last year after the Tiananmen Square shootings in June.

Given the Bush administration's unfolding strategic concept of, and national interest in, the Asia-Pacific region, we can easily understand the importance it places on China. Despite this, human rights remains one of the fundamental coordinates of American idealism. And it cannot be denied that there is a large difference in degree between government by force and government by law.

While we by no means take lighly the issue of human rights in China, we would like to applaud the realistic moves made by the U.S. Export-Import Bank and the World Bank. Both institutions have adopted a position toward China that could serve as a springboard for aid resumption by the Asian Development Bank and the Japanese Government, which is still holding back on the third round of concessionary yen credits totaling Y810 billion for fiscal 1990-1995.

China's economic malaise, like that in the Soviet Union, stems directly from the nation's deformed industrial structure, with its excessive dependence on the heavy and petrochemical industries.

Starved for development capital, China has placed its hopes on the Japanese yen credits. Indeed, the two countries have already reached agreement on the groundwork for resuming the third round of yen credits.

We would like to see steady progress toward that goal.

### Numerical Control Equipment To Be Made in PRC

*OW2202110890 Tokyo NIHON KEIZAI SHIMBUN in Japanese 18 Feb 90 Morning Edition p 5—FOR OFFICIAL USE ONLY*

[Text] Fanuc may start cooperation with China in the local production of NC (numercial control) equipment for machine tools as early as June. After exchanging memoranda with the Chinese side in late December 1988, preparations had been temporarily halted due to the Tiananmen incident in June last year. Since the political situation has stabilized, definite plans to start production have become possible. Initially, Fanuc will supply only the control devices of the NC equipment, but will eventually aim at joint venture production. This

will be the first time for a Western company to cooperate with China in producing NC equipment.

Fanuc will cooperate with the China National Technical Import and Export Corporation and the Beijing Machine Tool Research Institute. It will produce the NC equipment below triaxial control, "Fanuc Series O-Mate E-2," which does not violate Coordinating Committee for Multilateral Export Controls (Cocom) rules.

Fanuc will supply finished products of the control devices, such as the crucial printed circuit board, while the Beijing Machine Tool Research Institute will design and produce the control panel, the CRT (cathode ray tube), and power unit independently, and assemble the NC equipment. Initially, production will start with about 200 to 300 units annually, with the future target set at 10 times that number.

There are about 100 machine tool plants in China, producing about 100,000 units each year. However, while NC operation is the norm for more than 80 percent of such plants in Japan, this technology is only available in about five percent of Chinese plants. China is still backward in making sophisticated machine tools. In view of the indispensability of the technology of NC machine tool-making in industrial development, China has sought technical assistance from Fanuc.

The Chinese side will be responsible for the maintenance of NC equipment sold.

## International Affairs

### Nakayama Interviewed on Foreign Policy

*OW0203123890 Tokyo MAINICHI SHIMBUN in Japanese 1 Mar 90 Morning Edition p 3—FOR OFFICIAL USE ONLY*

["Listening to Key Cabinet Members" column: interview with Foreign Minister Taro Nakayama by an unidentified MAINICHI SHIMBUN reporter—place, date not given]

[Text] [Reporter] How are you going to steer Japan's diplomacy?

[Nakayama] The basis of Japan's diplomacy is to strengthen and keep friendly Japan-U.S. relations . It is necessary to seek to strengthen relations among Japan, the United States, and Europe, based on this diplomatic policy. As a nation in the Asian and Pacific region, Japan should make efforts for the sake of peace and stability in Asia. Regarding Japan-Soviet relations in particular, we shall seek to resolve the northern territories issue and broaden relations between the two countries when Soviet Foreign Minister Shevardnadze visits Japan this spring.

[Reporter] I think the structural talks will be a focal point at the upcoming Japan-U.S. summit meeting. What do you think?

[Nakayama] In view of the information available, the summit meeting will discuss how the two countries will tackle global issues in the face of a new era, through the Japan-U.S. partnership; how the two countries seek to bring peace and stability to Asia; and how the two countries view changes in the Soviet Union and Eastern Europe. I think that, in this context, the structural talks will be brought up as an agenda item at the summit meeting.

[Reporter] How will you make domestic adjustments in preparing an interim appraisal in early April?

[Nakayama] Bold steps should be taken to resolve issues for the sake of future relations between Japan and the United States. However, there are two things Japan can do and cannot do. Regarding what Japan can do, there are also two things Japan can do on a short-term basis and on a long-term basis. Regarding things Japan cannot do, we should tell this to the United States, even if it is our friend.

[Reporter] The United States is stepping up pressure for the liberalization of the rice market in Japan.

[Nakayama] An informal ministerial talk of the Uruguay Round (the new multilateral trade negotiations), held under the sponsorship of the GATT (the General Agreement on Tariffs and Trade) last September agreed to make the round a success. Japan wants to cooperate in drawing a final conclusion on the rice issue, including other farm products.

[Reporter] Will Japan be able to hold out only by not importing a grain of rice?

[Nakayama] The Cabinet has made clear this position and the Diet has also adopted a resolution on this matter. We should continue to hold fast on this position.

[Reporter] How do you see prospects for Japan-Soviet relations?

[Nakayama] Although the resolution of the northern territories issue is an indispensable precondition for improving relations between Japan and the Soviet Union, we should make efforts to deepen mutual understanding by carrying out personnel and cultural exchanges between the two countries. As to the future resolution of issues between Japan and the Soviet Union, Foreign Minister Shevardnadze's visit to Japan will be a major chance. I hope to hear the results of the latest U.S.-Soviet foreign ministerial talks from U.S. Secretary of State Baker at the (upcoming Japan-U.S. foreign ministerial) talks.

[Reporter] How do you see prospects for releasing crewmembers of the No. 18 Fujisan Maru, now held in the DPRK (North Korea)?

[Nakayama] We have asked North Korea to resolve this issue through informal channels and the International Red Cross. I strongly hope that North Korea will take a forward-looking attitude to resolving this issue in the

wake of new-thinking diplomacy in the Soviet Union and moves for democratization in Eastern Europe.

[Reporter] What do you think of future improvement in Sino-Japanese relations?

[Nakayama] I hope the Chinese Government will continue to pursue the reform and open-door policies. If China leaves the door open for dialogue with the West, and its new concrete moves to this are confirmed, this will be a new momentum to further develop Sino-Japanese relations. I also hope for changes to improve Sino-U.S. relations, and this will, in turn, bring changes which can develop a new situation between Japan and China.

### Professor Views 'Crisis' Facing Country

*OW0203090190 Tokyo THE JAPAN TIMES in English 26 Feb 90 p 20—FOR OFFICIAL USE ONLY*

[By Tadae Takubo, professor of international relations at Kyorin University: "The Crisis Facing Japan"]

[Text] Bluntly speaking, the Liberal-Democratic Party [LDP] put up a good fight and the Japan Socialist Party [JSP] made a big advance in the general election. But is this to say that one need not worry about examining an international situation undergoing upheavals as the world moves toward the 21st century and studying how Japan should deal with matters that might affect its own fortune? The LDP's Motoo Shiina, who so admirably debated diplomatic and defense questions with the Europeans and Americans and who was also so eager to see political reform, failed to be elected. Talking about diplomacy and defense does not translate into votes. One cannot become a member of the Diet without discarding statesmanship and instead tickling and flattering the egoism of the people shamelessly and with no thought for appearances. [sentence as published]

I do not think that the Recruit affair is a trivial matter. Nor do I say that the consumption tax issue does not matter. But was there any serious discussion in the Diet before the lower house dissolution about what foreign policy changes might occur in the United States, which had publicly said the possibility of a full clash with the Soviet Union was at its postwar lowest, and what can be done about the cloudy Japan-U.S. relations? [sentence as published] Indeed, what issues were debated in the general election?

It's absurd to say that Japan will not import a single grain of rice. That simply will not pass muster in the world. International Trade and Industry Minister Hikaru Matsunaga, who spoke sensibly, was denounced by the LDP. Japan Socialist Party Chirwoman Takako Doi used the Matsunaga remark as ammunition to attack the LDP. What do other countries think that saw both the ruling and opposition political parties of Japan publicly pledge "absolutely no" rice imports in the election? There is a tendency in Japan to react strongly when other peoples say "Japan is heterogeneous." As far as rice is concerned, Japan is completely "heterogeneous."

The JSP publicly says it is for continuation of the Japan-U.S. Security Treaty yet it is plotting to bring about the abolition of the treaty by pressing for a suspension of Japan-U.S. joint operations and reduction and withdrawal of American bases on Japanese soil. The party now carries weight in the lower and upper houses. The JSP has close ties with North Korea. Until now, Japan was seen as inscrutable by other countries. What was it trying to do as a member of the international community? As a result of the general election, Japan will become an inreasingly puzzling nation. What is sad and could be fatal is that we Japanese are not aware that our country is viewed as a mysterious nation.

From about a year ago, public opinion surveys have been conducted in the U.S. in which the following strange question was asked: "Which do you think is the greater threat to America, Soviet military might or Japan's economic strength?" Putting arms and money and a hostile nation and an ally on the same plane is nonsensical yet the survey is perhaps one way of showing how the American people feel about the changes in the relations among the U.S., the Soviet Union and Japan.

According to a survey conducted by THE NEW YORK TIMES and the CBS network Jan. 13-15, a full 25 percent of the Americans questioned said Japan is "unfriendly," higher than the 19 percent who replied similarly in June last yer and the 8 percent in 1985. Sixty-seven percent said Japan is "friendly," down from 74 percent last June and 87 percent in 1985.

THE NEW YORK TIMES gave two reasons for the deteriorating Japan-U.S. relations: the insensitive Japanese purchases of the Rockefeller Center complex and Columbia Pictures Entertainment, and the improving U.S.-Soviet relations.

As the feeling about the Soviet threat lessens in the U.S., sentiment against Japan rises. And in Japan itself, the feeling probably will gradually grow that "economic sanctions by the U.S. pose a greater threat than the Soviet military might." There are surely not a few sympathizers in Japan who agree with what is said in "The Japan That Can Say No" coauthored by LDP politician Shintaro Ishihara and Sony Chairman Akio Morita. Ishihara openly questions the usefulness of the Japan-U.S. Security Treaty.

From the left comes the call for abolition of the treaty by Professor Motofumi Asai of the University of Tokyo. And the JSP, which thinks the treaty is unnecessary, has gained in influence in both houses of the Diet. When both the ruling and opposition parties shout as one "no" to the importantion of rice and a considerable number of people question the Japan-U.S. Security Treaty, it is quite natural that the U.S. too starts thinking.

There is no prospect for progress in Japan-Soviet relations with the northern territories issue still standing in

the way. Yet there are an increasing number of Japanese who are happy because they think the climate is improving. Some Japanese may get the foolish idea that the "diplomacy of smiles" by Soviet President Mikhail Gorbachev and his wife Raisa, who are expected to visit Japan next year, could be used as an outlet for the stalemated Japan-U.S. relations.

I attended an international conference in Munich in early this month. Many politicians from the U.S., West Germany and Britain took part. For two days there was a frank and intense debate on the security of the West as it dealt with the changes in the Soviet Union and Eastern Europe, as well as on the Germany reunification question.

Yukio Sato, director general of the Foreign Ministry's Information and Research Bureau, clearly explained Japan's position. I blush with embarrassment when I count on my fingers how many Japanese politicians can debate equally with European and American politicians on such an occasion.

The Europeans and Americans brim with vigor as they study how they can deal with the changes in the world as it moves toward the 21st century. By contrast, the attention of the Japanese politicians is mainly turned inward. The general election this time exposed the incompetence of these politicians and the crisis facing Japan.

### * Commentary on Facing Changes in Coming Decade

*902A0061A Tokyo SANKEI SHIMBUN in Japanese 24 Dec 89 p 5—FOR OFFICIAL USE ONLY*

[Economic commentary by Kunio Mioyamoto, Sumitomo Life Research Institute research chairman: "Japan and the World in the 1990's"]

[Text] In less than 10 days, we enter a new decade of the 1990's. What will it have in store for us?

In retrospect, we can see the enormity of the difficulties confronting the world as the 1980's were ushered in. The Iranian revolution in 1979 triggered the second oil crisis, accelerating the pace of worldwide inflation. As the year 1979 drew to a close, we witnessed the Soviet invasion of Afghanistan. In 1980, Iraq and Iran plunged into an all-out war. With the siege of the U.S. Embassy by Iranians in Teheran, tension in the Middle East quickly heightened. It was in the midst of this world crisis that President Reagan took office; and calling the Soviet Union "an evil empire," he launched expansion of the U.S. military forces.

The 1990's will have a completely different beginning. The global economy is continuing in a period of long-term expansion, and oil prices have been stabilized. Easing of restrictions on and privatization of industries have been encouraged, and this development contributed to greater economic efficiency. The GATT Uruguay Round, the U.S.-Canada Free Trade Agreement, and the integrated EC markets will stimulate competition on a global scale. In such an environment, together with increased international trade, mutual economic penetrations through investments and business enterprises are creating a "world economy" in the true sense of the word. Unlike the Central and South American countries, which are under the crushing burden of accumulated debts, Asia NIES [newly industrializing economic societies] and ASEAN have successfully taken off and are on the road to industrialization.

And above all, relaxation of tension between the United States and the Soviet Union is definitely here to stay. The resulting arms reductions not only will contribute to the promotion of world peace but also will greatly benefit the United States and Soviet Union economies; and, in turn, those of the rest of the world. For the Soviet Union which currently spends more than 10 percent of its GNP on its military, and for the United States, which is grappling with the problem of its deficits, reduction in military spending is a sure way of reducing government deficits. This would provide the quickest way of improving the ratio between U.S. savings and spending and its deficits in the international balance sheet. It also constitutes the possibility of generating resources for the social investment and the education required for revitalization of the U.S. economy. Improvement in the U.S. savings ratio will create surplus resources which can be spent on development in Third World nations and the communist bloc. Arms reduction is certain to bring "dividends for peace."

Perestroyka, which triggered the easing of U.S.-Soviet tensions, provided energy for the liberation movements in Eastern Europe. Introduction of democratization and of the market economy into the Soviet Union and Eastern Europe will result in these countries' participation in the free world's GATT and IMF systems, which should enable the world economy to pursue the advantages of market mechanisms on a still wider scope.

Although such movements may experience setbacks and the tensions developing in Panama may persist, I believe that the fundamental direction will remain unchanged.

In the 1990's, economic force, not military power, moves the world; and Japan is a world economic power from any country's viewpoint. Japan's share in world GNP until 1980 was no more than 9 percent, but it appears that this figure jumped to approximately 15 percent in 1988. During this period, Japan's international credit of a little over $10 billion in 1980 climbed to $300 billion. We no longer can talk about world finances and economies without bringing in the factor of Japanese money. Also, in the technological field centering around electronics, the cummulative effects of Japan's detail-oriented research and development efforts have attained a level sufficiently advanced to have an impact on U.S. defense technology. With the twin power of finance and technology, Japan is ready to stand at the summit of the world.

On the other hand, in the 1990's, Japan may face the danger of replacing the Soviet Union as the common enemy in the eyes of the free world. The United States, and, to a lesser degree, Europe increasingly are viewing Japan as an alien nation where the rules of fair competition do not apply, and therefore, they should not continue with free trade agreements but, rather, adopt controlled trade agreements. Irritated by losing its financial and technological leadership to Japan, the United States is alleging that Japan's contribution to international causes is woefully inadequate. However, by opening our markets to a greater extent, we can become the world's major importer and use our financial and technological power in aiding developing countries and the communist bloc nations, as well as in solving the earth's environmental problems. Japan is not the common enemy of the United States and Europe but, rather, a country with the potential of becoming a willing partner in building a prosperous global economy.

In the decade of the 1990's we will be faced with truly momentous choices.

## National Affairs

### Party Secretaries Hold Joint News Conference

*OW2202010990 Tokyo NIHON KEIZAI SHIMBUN in Japanese 21 Feb 90 Morning Edition p 2—FOR OFFICIAL USE ONLY*

["Summary" of joint news conference on election results by secretaries general of six parties on 20 February at the Diet Press Hall]

[Text] **Consumption Tax**

Liberal Democratic Party [LDP] Secretary General Ozawa: We have no intention of insisting that, now that we have won a stable majority in the latest election, everything has to go as the LDP pleases. Since we already have prepared a second draft, which incorporates a variety of views, we will introduce it. Keeping it in its present form, however, will only result in conflict (with the call for the abolition of the bill). Therefore, we want to hold thorough consultations between the government and the opposition. We are not attaching any conditions to these consultations.

Japan Socialist Party [JSP] Secretary General Yamaguchi: Although it won a stable majority in the number of Diet seats, the LDP won no more than 40 percent in terms of votes obtained. The consumption tax should be abolished. The opposition will prepare a bill calling for its prompt abolition and present the bill jointly to the House of Representatives. I believe that the LDP will introduce its second bill. In that case, the 3 percent consumption tax will be left intact. Under these circumstances, tax collection should be discontinued and for a certain period of time debates should be held on the tax system, including on a redress of the inequitable tax system.

Komeito General Secretary Ichikawa: There are still strong voices among the people calling for the abolition of the consumption tax. We find it impossible to change our stand. Under parliamentary democracy we must keep debating on it in a dignified manner and go as far as we can. We should have the people watch the parties debate in keeping with their election pledges.

Japan Communist Party [JCP] Secretariat Chief Kaneko: Large-scale indirect taxes should not be left intact in any form. A debate on direct taxes on a case-by-case basis is tantamount to opening the door for large-scale indirect taxes.

Democratic Socialist Party [DSP] General Secretary Yonezawa: It is justified to call for abolishing it and radically carrying out tax reform. The revised draft and the bill calling for its abolition are expected to conflict with each other. Deliberations on this matter should be open to the public. Talks may begin there and then. A freeze or any other action to be taken by the LDP will be an indication of how the talks will develop. The deliberations should not be boycotted.

United Social Democratic Party [USDP] Secretary General Abe: The issue should be settled through open debate.

**Diet Management**

Ozawa: With the end of the fiscal year just around the corner, we hope to give priority to the deliberation on and enactment of the supplementary budget bill. It is scaled at nearly 6 trillion yen, including salaries for government employees and annuities as well as expenditures for the development of rural districts and small- and medium-size businesses. We cannot understand why the opposition should oppose it. They say that it is linked to the consumption tax, but money has no color.

Yamaguchi: We say "no" to that part of the supplementary budget bill which is linked to the consumption tax. We are willing to handle salaries and annuities but the content needs to be debated between the government and the opposition.

Ichikawa: As a matter of course, that portion of the supplementary budget bill which is linked to the consumption tax should be separated. However, since people want an open debate, it will be ill-advised to boycott deliberation at the beginning. We will be forward-looking in handling salaries, annuities, and other matters related to livelihood.

Yonezawa: Since the supplementary budget bill will have a far-reaching impact on the people, the government and the opposition should strive to deliberate on and enact it. There should be no boycotting of its deliberation just because it is linked to the consumption tax.

### JIJI Predicts Precarious Future for Kaifu

*OW0203004190 Tokyo JIJI in English 1346 GMT 28 Feb 90—FOR OFFICIAL USE ONLY*

["Analysis: A Precarious Future for Kaifu"—JIJI headline]

[Text] Tokyo, Feb. 28 (JIJI PRESS)—Intra-party factional wrangling over the composition of Prime Minister Toshiki Kaifu's second cabinet suggests a precarious future for Kaifu, who, in demanding the formation of a "clean cabinet," only alienated intra-party factional leaders. The formation was delayed for hours due to a row to include Takayuki Sato, a lower house member convicted for involvement in the Lockheed bribery scandal, in the cabinet lineup.

Former Finance Minister Michio Watanabe, who was implicated in the Recruit stocks-for-favors scandal, apparently sought to send Sato, a protege of former Prime Minister Yasuhiro Nakasone, to the cabinet as a gesture of gratitude to Nakasone for turning over control of his faction to Watanabe last week. Watanabe is also thought to have disrupted the cabinet selection process in an attempt to weaken Kaifu's power base and strengthen his own bid for the top Liberal Democratic Party [LDP] position and the premiership.

The fact that the top three LDP factional bosses—Noboru Takeshita, Shintaro Abe and Kiichi Miyazawa—made no effort to intervene in the dispute seems to indicate a shared intent to remove rather than support Kaifu. The lack of support could be traced to Kaifu's refusal to include other politicians tainted by the Recruit scandal, notably, Yoshiro Mori, a member of Abe's action, and Koichi Kato, from Miyazawa's faction, in the cabinet lineup or the top three LDP posts. Criticism of Kaifu mounted as he gave in to factional pressure and appointed Mutsuki Kato, another Abe faction member who was also implicated in the Recruit scandal, to chairman of the LDP's Policy Research Council, one of the top three party posts.

The cabinet formation was also characterized by vigorous factional fighting for the prestigious Transport, Posts and Telecommunications and Construction Ministry portfolios. The posts were divided among the Takeshita, Abe and Watanabe factions. The third-largest Miyazawa faction, which sought to place a newcomer in one of the posts, was given a cool brush-off. Takeshita's faction, the party's largest, took six cabinet posts, in line with the LDP tradition of giving the most powerful faction more posts. It regained the Construction Ministry post and took the Home Affairs portfolio, which will play an important role in determining the future of Takeshita's plan to revitalize Japan's local economies. The ministry will also be in the spotlight in the revision of the election system.

Although Abe's faction, the LDP's second largest, did not manage to garner five cabinet posts as requested, it landed the important Foreign, Agriculture, Forestry and Fisheries, Transport and Labor Ministry posts. In an apparent compromise for rejecting Sato, Watanabe's faction, the party's fourth largest, was given the important International Trade and Industry, and Posts and Telecommunications portfolios. Miyazawa's faction, which became the third largest as a result of the recent election, requested cabinet apppointments for two experienced faction members and three newcomers. But his fold ended up only with the Health and Welfare portfolio and three relatively minor state ministry posts. The Toshio Komoto faction, to which Kaifu belongs, took the Chief Cabinet Secretary and Environment Agency positions.

### Editorial Berates 'Vote-Raking Maneuverings'

*OW2502054990 Tokyo ASAHI EVENING NEWS in English 21 Feb 90 p 6—FOR OFFICIAL USE ONLY*

[ASAHI SHIMBUN 21 February editorial: "Were Elections Free, Fair?"]

[Text] On the day when public notice was served on the Lower House's general elections, a bizarre event took place in front of Shibya Station in Tokyo. Posted around an election van, on the top of which Liberal-Democratic Party (LDP) President Toshiki Kaifu was delivering a fervent speech, was a horde of middle-age men in their black suits and coats with numbered reference tickets in their hands.

They were management staffers mobilized through major corporations by the LDP's Tokyo federation. Printed on the tickets were serial numbers prepared by line of business, and the gimmick was that the collection of those tickets would instantly tell who were not there and what corporations they belonged to. In other words, swarms of corporate managers turned out on the streets in a manner which could well amount to an infringement upon the freedom of individuals to support the political party of their office.

The general elections Sunday are described as having been plutocratic ones which swallowed up corporations, something unheard of since the Upper House's elections in 1974 when Prime Minister Kakuei Tanaka put spurs to the Liberal-Democrats. The election in which businesses are embroiled in scrambling for money and votes is nothing new at all, but never has there been an election where so blatant vote-raking maneuverings took place as in Sunday's elections. This sort of development is something which can never escape attention for the sake of Japan's democracy.

Here are some samples from the cases of corporate meddling in the elections reported by mass media.

An automaker who ran counter to the founder's admonition that calls for political neutrality. Some life insurance houses which rendered cooperation by presenting their lists of front-line salesmen. A machinery maker, each one of whose employees was instructed to submit at

least three families' application cards for membership to get assurances for the voting of specific candidates. The corporate managers who visited their subordinates' houses in the guise of conducting an occupational safety and health drive.

Those corporate acts might fall under the category of the sort which is banned under the Public Election Law—that is, the "acts with which electors are threatened or induced by taking advantage of the relationship of particular interests with them." More than anything else, it is a fact patent to all that those acts run counter to the spirit of the Constitution which declares that "the people have the inalienable right to choose their public officials" and which guarantees the freedom of thought and conscience and also that of the ballot.

Yet another thing that can never escape attention is the responsibility of management for cooperating with the LDP by making huge donations in response to its requests and casts furtive glances on plutocratic elections. [sentence as published] Again, this is nothing new at all. The LDP reportedly hoped to have Y30 billion from the business community, as against Y2 billion the opposition hoped to raise. Does this difference not deter a free and fair judgment on the part of Japanese citizens?

The people are essentially suspicious about corporate political donations. The question is, what ground is there for corporate profits—which, essentially, are supposed to be reverted to stockholders and employees—to flow only to specific political parties at the discretion of a handful of people to whom management is simply commissioned over a limited length of time?

Leaders of the business community think it only natural to support the LDP, for which there could be no replacement in sustaining the free economic system as things now stand. The argument that the LDP is the only guardian of the free economy amounts to a sort of ideology or illusion.

A climate, in fact, prevails over the Liberal-Democrats to ponder over the way corporate denotations ought to be. LDP Secretary-General Ichiro Ozawa said, "This is my personal view, but I would think it better for businesses and other organizations not to make donations."

What is at least required here is to put the brakes on unbridled corporate donations. The Election System Council is urged to work out tangible measures to do so.

Some people, both in the LDP and the business community, counter that labor unions are also engaged in collecting money and votes. It is true that some of them are problematical, to be sure, but the power corporations in Japan have over their employees and affiliated firms simply canot stand comparison with that of labor unions. Rather, it seems that entrepreneurs have continued to boast of their ruling power as an outcome of the Japanese way of management.

Assuming that there are demands to authorize corporate political activities, it would not stand to reason unless in-house information was released and democratic forums were authorized. Citizens' movements have been formed, such as "Dial 110 Against Plutocratic Elections" and the "Liaison Council for Accusation of Elections Swallowing Up Businesses," and it is high time labor unions raised critical in-house voices.

It is encouraging to note that corporate Japan is highly rated around the world after having overcome two oil shocks and the rising yen. Nonetheless, it is to be noted that this success is something which has been made possible with the support of the Constitution, which guarantees freedom and democracy, and of diligent and obedient workers. In no way should entrepreneurs and corporate supervisors deprive their employees and subcontractors of freedom.

It is the Liberal-Democrats who broached general elections of the sort which would swallow up businesses. Nonetheless, do leaders of the business community not have the wisdom of rejecting preposterous demands from the ruling party? We wish we could have clung to the words of Taizo Ishizaka and Toshiwo Doko, the deceased doyens of the business community.

## LDP Victory Attributed to Opposition 'Weakness'

*OW2502052290 Tokyo ASAHI EVENING NEWS in English 21 Feb 90 p 6—FOR OFFICIAL USE ONLY*

[Unattributed article: "Which Party Won Election?"]

[Text] The victory at the polls by Japan's ruling Liberal-Democratic Party (LDP) is due more to the weakness of the opposition than to the LDP's strength, political analysts here said Monday.

The ruling LDP won a majority in the Diet's powerful Lower House in the general election on Sunday despite significant gains by the largest opposition party, the Japan Socialist Party [JSP].

"The choice of stability shows that Japanese are, in essence, a prudent people," said Masataka Kosaka, a professor of political science at Kyoto University. "They said 'no' to the choice of mandating power to the opposition, which has offered no significant policy alternative to the ruling party."

In July elections the nation's voters showed their opposition to a 3-percent consumption tax introduced by the LDP in April by voting the ruling party out of absolute power in the Upper House.

The failure of the opposition to end the LDP's monopoly on power "is partly due to its failure to eliminate the strong suspicion among voters that some opposition parties are likely to join the LDP camp after the election, and partly because the opposition candidates failed to make their ideas clear," said Takeji Muno, a popular

analyst and commentator. "Though the Socialist gains, I think, indicate the nation still wants something new in politics," he said.

Prof. Hidekazu Kawai, who teaches political science at Gakushuin University, said the election results indicated Japan's strong desire to maintain stability.

"While voters severely punished the LDP in the July Upper House election, this time they came back to the ruling party to maintain a stable political power. It's a sense of balance the Japanese voters have displayed well over the years," Kawai said.

Kawai attributes the gains of the Japan Socialist Party to both the popularity and leadership of Chairwoman Takako Doi and to a growing awareness among voters that the Socialists are the best at keeping in check and scolding the LDP.

"Generally speaking, fewer voters give wholehearted or enthusiastic support to parties. It might be due to a sense of distrust of political parties, but I think that voters have become so mature that they have a healthy suspicion of politics," Kawai said.

Japanese politicians are elected to office on the strength of personal support machines they have built up and nurtured over the years rather than on specific policies.

"The LDP successfully threw veils over hot issues like the unpopular consumption tax," which the opposition used to great advantage in the July Upper House election, Kawai said.

"It's necessary for the nation to review the current election system," said Kyoto University's Kosaka, "if the nation wants to bring about significant changes in politics."

Ryosaku Sasaki, retired Lower House member and former chairman of the Democratic Socialist Party which suffered significant setbacks on Sunday, said the election results show few signs that the LDP has moved away from money politics.

"Money is powerful even in hell, they say. Now, helped by the materialism of today's Japan that is to some extent economically prosperous, money politics has deeply tainted the society. It's the most critical problem legislators must tackle, but so far they have changed little from the awful trend," he said.

### Article Analyzes Reasons for LDP Victory

*OW2502015090 Tokyo THE JAPAN TIMES in English 24 Feb 90 p 20—FOR OFFICIAL USE ONLY*

["Opinion" page article by Minoru Tada: "A Typical Election Climate"]

[Text] The general election last Sunday resulted in the ruling Liberal-Democratic Party [LDP] keeping its stable or comfortable majority in the House of Representatives. The combined opposition made up of the Japan Socialist Party (JSP), Komeito, the Japan Communist Party (JCP), the Democratic Socialist Party (DSP), Shaminren, the Progressives (Shimpo) and the Rengo labor confederation failed to wrest the majority from the ruling party. Politically, the LDP won.

However, the JSP showed a spectacular and historic advance by winning 53 seats more than their pre-election strength. Yet the combined opposition failed to come close to forcing a change of power because Komeito, the Communists and the Democratic Socialists suffered a complete defeat. And the LDP, while winning a comfortable majority, decreased in strength by 20 seats from its pre-election level, and by nine even when the successful independents who joined the party after the election are included.

Why call the election outcome then a "big victory" for the LDP? Because the opposition parties, the news media and even the LDP itself (though intentionally and tactically in this case) mistakenly wondered whether the LDP would retain its majority in the Lower House. The opposition's winning the majority was a fantasy. After all, even if all the candidates of the JSP, Komeito, the DSP and Shaminren had won, they would have obtained the bare majority of 257 seats, and 278 if the 20 potentially successful Communists and one Progressive were added.

The election was politically significant for two reasons. First, would the voters reject the LDP as they had in the Upper House election last July or remain noncommittal? Or would a considerable number of them show a sense of balance and support the LDP as they recovered from the shock of seeing the party drop to the minority position in the Upper House? In the first instance, the LDP would keep its majority, but the combined opposition would be very close to matching it in strength. The actual outcome is that a fair number of the voters made a choice different from that at the time of the Upper House election.

Secondly, what would the voters think about the LDP continuing to hold a comfortable majority (enabling it to chair all standing committees of the house) in the powerful Lower House? The people felt it was desirable that the LDP hold that majority. What counted most in this choice is the difference in structure, as it were, between an Upper House election and a Lower House election.

The Upper House election involves proportional representation and large constitutencies. Therefore, the voters chose either for or against the party in power responsible for the consumption tax and farm import liberalization, many of whose members were implicated in the Recruit affair. The voters in general knew relatively little about the candidates. In the case of the Lower House election, the electoral districts are small, and the candidates and voters are linked, partly through support organizations. Interests are involved.

All this favored the LDP candidates, and the votes of the farmers returned to the party. Also, the international situation changed to the advantage of the LDP. Voter anger over the Recruit affair had lessened, if not disappeared entirely. The right or wrong was ignored. In fact, the beating the LDP got in the Recruit case even won it some sympathy votes last Sunday. This very typical Japanese election climate contributed to the LDP's victory.

Komeito and the JCP and the DSP suffered a stunning blow. The Communists were affected by the upheavals in Eastern Europe. It was their less than clear posture that alienated many voters from Komeito and the DSP. The voters were irritated to see Chairmen Junya Yano and Saburo Tsukamoto of Komeito and the DSP, respectively, holding on despite their suspected involvement in the Meidenko and Recruit cases. The two parties, though publicly opposing the consumption tax, bargained with the LDP and helped it ram the tax through the Diet. They are also less than enthusiastic about the idea of an opposition coalition government, and constantly negotiating with and snuggling up to the LDP.

The anti-LDP wind that blew so strongly in the Upper House election has not disappeared. Far from it. See the very impressive gains made by the JSP, which pulled no punches in confronting the LDP on the consumption tax issue and the Recruit affair. The voters liked that attitude and gave the party their votes. Party Chairwoman Takako Doi's personal popularity also won many women's votes for the party.

What ultimately brought victory to the LDP was the "sense of crisis" felt by both the party and business interests, big and small. "It would be embarrassing if the opposition won and stock prices still remained high," and "Profits would disappear if the consumption tax was abolished"—these remarks were often heard during the election campaign. At no time since 1974 had the Liberal-Democratic Party worked so closely as one with the business community to battle for election victory as it did this time. The DSP tried to link up with both management and labor to put up a fight, but it didn't have a chance.

Win as it did in the general election, the LDP still is the minority party in the Upper House. It can only be hoped that all the parties will pool their good sense toward unity of policy in the general interest of the nation and the people.

## Editorial Advises Parties on Pending Issues

*OW2502061790 Tokyo THE DAILY YOMIURI in English 21 Feb 90 p 6—FOR OFFICIAL USE ONLY*

[YOMIURI SHIMBUN 20 February editorial: "LDP's Election Victory"]

[Text] The Liberal Democratic Party's [LDP] victory in the House of Representatives election shows that the people of Japan voted for political stability in times of tumultuous international changes.

However, it also must be noted that the Japan Socialist Party [JSP] made dramatic gains in the election. At the same time, the middle-of-the-road parties, Komeito and the Democratic Socialist Party [DSP], lost seats.

The major focus of this general election was whether the opposition parties could keep the LDP from gaining a majority in the lower house following opposition victory in the House of Councillors last July. They failed, and now both the LDP and the opposition parties should respect the verdict of the voters and work hard to achieve proper political management.

Faced with a rapidly changing international situation, Japan must decide how to relate to other countries and wield its economic power.

### Neglected Issues

With the opposition parties taking the lead, the main point of contention in the campaign was the consumption tax.

Other important issues were virtually ignored in the campaign, leading many voters to worry about the future of their country. For instance, Japan must maintain its economic vitality to improve the quality of life for the Japanese people and contribute to international society.

To accomplish this, the government must face up to the problem of the deficit. The outstanding value of deficit-covering government bonds will reach Y164 trillion by the end of next fiscal year. Interest payments will top Y11 trillion, eating up 20 percent of annual tax revenues.

We wonder why the opposition parties concentrate on the revenue-producing Y6 trillion consumption tax, while failing to notice this huge interest payment.

JSP Chairwoman Takako Doi, who wants to scrap or freeze the consumption tax, called the election a plebiscite on the tax. If we follow her logic, we could conclude that the consumption tax was approved by voters.

It is true the JSP made big gains in the election. However, the party still includes a leftist caucus that treasures the antiquated ideology of Marxist-Leninist socialism.

It remains to be seen how effective the leftist caucus will be in hampering the JSP's attempts to get in touch with reality.

Komeito and DSP suffered setbacks because they linked their political fate to the JSP without reaching a compromise with the socialists on basic policy. They should now seek to return to their original policies.

### Need For Debate

In the Diet, it is time to set new rules and adopt new customs to encourage deliberation. The LDP should

learn from its past mistakes and take the leadership in carrying out much-needed political reform.

The new power balance between the LDP and the opposition is certain to cause confusion when a special Diet session is convened. But both the LDP and the opposition parties should realize that the public will suffer if passage of the fiscal 1989 supplementary budget and fiscal 1990 budget is delayed.

At the same time, Japan faces difficulties in dealing with the Structural Impediments Initiative talks with the United States and with the Uruguay Round of the General Agreement on Tariffs and Trade.

Various reforms, including political reforms, were left untouched for the past year at the Diet. The LDP and opposition parties should be prepared to compromise in the interests of the nation.

### Column Doubts Voters Used Wisdom in Polls

*OW2502091490 Tokyo THE DAILY YOMIURI in English 23 Feb 90 p 3—FOR OFFICIAL USE ONLY*

["Behind the Scenes" column by Minoru Hirano: "Poll Shows Lack of Vision"]

[Text] The Liberal Democratic Party [LDP] won a stable majority in Sunday's election as the voters preferred stability to change. We wonder whether their first choice in the 1990's is correct and wise.

No elections in the past ever exposed the collusion between the LDP and the business community so nakedly as this one. LDP Secretary General Ichiro Ozawa said there was nothing wrong in business companies supporting the LDP because labor organizations extended unstinted support to the Japan Socialist Party.

Political observers said, however, that business firms were violating the fundamentals of democracy in supporting specific candidates by using their money, personnel and advertising space in the media, although individual employees were free to decide whom to choose.

Observers also pointed out that democracy is based on the principle that change of government is possible. If money is always the victor, the result of an election battle is evident from the beginning. The LDP cannot be the loser because it can draw money from business firms.

Jeffrey Garten, a member of the White House Council on International Economic Policy in the Nixon administration, said in his article in the winter issue of Foreign Affairs that "true democratic resolutions, in which individual rights and individual choice emerged as potent objectives of government policy, never occurred in Japan." The Feb. 18 election underscored this assessment.

Japanese women have a deeper distrust of the LDP's money politics than men. The approval rating of the LDP among women is always lower than among men. In last July's House of Councillors election, women voters drastically reduced the number of LDP seats in the upper house. Why didn't they vote the same way in the latest election?

It appears, after all, that they chose the LDP's promise of prosperity rather than political ethics. They had better think it over.

The LDP had promised the voters that it would attach importance to the interest of consumers and endeavor to adjust price differences between Japan and the rest of the world. Now, it is doubtful that the LDP, elated with the victory, will honor this commitment. The voters were lured by the bait, but the LDP must first return a favor to big business.

Ironically, Japanese consumers only have to wait for the United States to bring its pressure to bear on the Japanese Government and urge it to switch to a policy that promotes the interest of Japanese consumers during the Japan-U.S. Structural Impediments Initiative negotiations which resumed on Thursday.

Foreign observers commented that although the LDP leaders have long claimed that Japan's economic prosperity was a direct result of the political stability the LDP rule guaranteed, the interests of Japanese consumers finally will be recognized if Japan's political system is opened up for a more pluralistic form of democratic government. That would ease many of the tensions between Japan and its leading trading partners, they said.

Contrary to their expectations, the fact that close ties between the LDP and the business community were laid bare, and that the LDP rule was accepted by the voters, has given the rest of the world a strong impression of Japan Inc. This image of Japan will certainly alarm foreign countries even more.

French Minister for European Affairs Edith Cresson recently said that Japan is an "adversary that has an absolute will to conquer the world." She is remembered for her remarks that the Americans appear to be petrified by Japan and the United States and Western Europe should work out a joint strategy to counter the economic threat from Japan.

The election results make it doubtful that the voters cast their ballots with a clear vision of their real interest and of the international situation surrounding Japan.

### Column Comments on Results of General Election

*OW2402014390 Tokyo ASAHI EVENING NEWS in English 22 Feb 90 p 6—FOR OFFICIAL USE ONLY*

["To My Mind" column by Teiji Onodera: "Was an 'Invisible Hand' at Work?"]

[Text] After a major Diet election, someone invariably credits voters with making right choices about the balance of power among the parties. This reminds me of

Adam Smith's "invisible hand," an assumed agent which ensures, according to the economist, that the free pursuit of individual desires in a market economy works out for the good of the public. Was such an agent at work in last Sunday's lower house election?

Stunning its opponents, the ruling Liberal-Democratic Party [LDP] contrary to the general expectation that it would get a slim majority at best, won 275 seats, more than enough to get bills safely through the 512-seat lower house. The LDP ranks swelled to 286 when successful conservative independents later joined the party, compared with an opposition total of 226. Considering the widespread popular discontent with the woes of the LDP rule, it seems unlikely that an "invisible hand" showed its wisdom by engineering the party's triumph.

The No. 1 opposition Japan Socialist Party [JSP], as expected, sharply increased its seats to 139, rebounding from an all-time low of 85 seats in the last election in 1986. Three other opposition parties—the Clean Government Party (Komeito), the Japan Communist Party [JCP], and the Democratic Socialist Party [DSP]—had been predicted to lose seats, but the magnitude of their defeat surpassed pre-election forecasts.

Why did the LDP win so massively? The party scored the victory despite the fact that the 3-percent consumption tax, a chief campaign issue, is still widely unpopular. Does it mean that voters have become more tolerant of the Recruit stocks-for-favors scandal with the passage of time? What about the high cost of living and soaring land prices, which have made it impossible for salary earners to buy houses? As observers see it, the answer is that the electorate voted for political stability, shunning change which might result from an LDP defeat at the polls.

Political stability is certainly important when the international situation is volatile. It is essential to deal with critical trade issues with the United States. But if the LDP's victory meant a vote for stability, why did the JSP, the No. 1 opposition party, fare so well? The JSP has long been urged to become more realistic. The centrist parties, Komeito and the DSP, have shied away from joining hands with the JSP for a coalition government on the grounds that the latter has not changed enough. If the electorate were so mindful of stability, it should have given more support to the realistic centrists than to the JSP.

What happened was just the opposite. Clearly, people lodged their protests against the LDP rule by voting for the JSP. For a long time before last summer's upper house election, the JSP had kept losing seats in the Diet as people increasingly saw it as an undependable vehicle through which to express their grievances. The disaffected turned to the other opposition parties as offering better alternatives to the JSP. But the tide has shifted now. This would explain the beating the centrists and the JSP took in the latest Diet election. In the eyes of anti-LDP voters, the centrists who once stood for sound opposition apparently look too soft now as they seem accommodating to the LDP. The JCP had an appeal as a more radical alternative to the JSP, but it has faded in the light of the communist failures in the Soviet Union and Eastern Europe.

The result is that the JSP has re-emerged as the party for anti-LDP people in general to vote for. Their ballots were long fragmented, but they have come to be focused now. In the latest election, the JSP wrested seats not only from the LDP but more from the centrists and the JCP. The JSP's advance indicates that the electorate, while handing the LDP a massive majority, remains dissatisfied with it. If the electorate's message was double-edged, there is no contradiction between the victories scored by the LDP and the JSP. They came at the expense of the centrists and the JCP just because they could come from nowhere else.

Was all this brought about by an "invisible hand?" In other words, was it a right choice? To answer this question, one will have to go back to the stability vs. change issue. Personally, I favor taking risks to bring about change. The opposition parties have failed to muster the seats to form a coalition government. They are ill-equipped to take over anyway. But change would be welcome in one way or another, perhaps through political reorganization. Voting for stability may make sense under the present circumstances. Still, I hope to see the opposition in power just for once because that would be the surest way to bring about the sorely needed change. If an opposition takeover must be delayed until proper circumstances develop, when will it overcome?

## Consumption Tax Viewed as Post-Election Issue

*OW2202020190 Tokyo ASAHI EVENING NEWS in English 19 Feb 90 p 4—FOR OFFICIAL USE ONLY*

["Weekly Economic Review" column by George Murakami: "Big Post-Election Issue Is the Consumption Tax"]

[Text] The financial markets last week were quiet, awaiting the returns from Sunday's general election. The yen showed little movement. There was little activity in the Tokyo stock market. Trading volume was low, the big institutionals stayed on the sidelines and the small stocks accounted for most of the action.

The financial event of the week was the bankruptcy of the giant New York securities house Drexel Burnham, the creator of the junk bond market. Some Japanese banks and life insurance companies will be hurt by the collapse but the markets on the whole here and abroad reacted calmly.

This column is being writen before the general election. The various polls and predictions all see the Liberal-Democratic Party [LDP] retaining a majority of the

lower house seats and I am proceeding on that assumption. But they could be wrong. Back in 1952 the U.S. polls picked Gov. Thomas Dewey to defeat President Harry Truman.

The big issue in the election campaign was the consumption tax and it threatens to remain the initial hurdle in the post-election situation. I think it is a relatively minor issue and hardly a matter by which the future course of the nation should be determined. However, the opposition parties have made it effective politics. They won the upper house election of last summer on a pledge to repeal it.

The upper house has passed the bills to repeal the tax and make up for the loss in revenue with new tax measures. This was blocked in the lower house, still controlled by the LDP. The LDP, acutely aware of the unpopularity of the tax, has proposed a compromise program, lifting the tax on food, rent, funerals, births and other sensitive items.

Why is the tax so unpopular? Housewives, paying the tax at their stores, have suddenly found themselves for the first time in the unfamiliar role of taxpayer. There is also the suspicion, well founded, that much of the tax remains in the pockets of shopkeepers and does not find its way into the national treasury. Shopkeepers with less than Y30 million in annual sales need not pay the tax and legally are not entitled to collect it but some do. Again, firms doing less than Y500 million in annual business are not taxed so that in many cases they can keep part of the tax.

To ease opposition to the consumption tax among distributors, the LDP put the provisions in the tax. In its compromise program, the party makes no mention of corrective measures of this problem, saying this would be taken up later.

In the election campaign, both sides have made statements indicating some softening in their stands. Prime Minister Toshiki Kaifu had been urging more radical easing in the tax and is now saying he will press for these changes, meaning much broader exemptions. The opposition parties are talking of selective sales taxes to make up for the loss in revenue.

In the post election situation, the LDP, assuming it wins, will seek working arrangements with the opposition parties to avoid paralysis in government. And the first big hurdle is the consumption tax. For election campaign purposes, the two sides have taken adamant stands. The opposition is for unconditional repeal. The LDP sticks to revision but retention.

The general public has become more sophisticated about the consumption tax and taxes in general. Government costs money and must be paid for by taxes. If a tax is repealed, other things must be taxed to make up for the loss in revenue. Repeal of the consumption tax solves no problems and creates new ones.

Paralysis in government must be avoided. Some kind of working arrangement must be formulated between the LDP and the opposition to get Japan through the 1990s and to deal with massive problems of the coming decade. And to do this, the consumption tax must be gotten out of the way. A suitable arrangement can be worked out on this, given the native bent for practical compromise. This would have to include LDP acceptance of the opposition proposal for a long-term project to reform the tax system as a whole.

In a hopeful view, this project could lead to reorganization of the political parties. Whatever the outcome of the election, the majority of public sentiment favors this, a change in the government in power. The present system of alliances that have formed the present political parties is outdated and is unable to deal with the major problems ahead, the better distribution of the gains made by the economy, Japan's new role in international finance and economics and a bigger voice in the legislatures for the urban voter.

### Kaifu-Abe Clash Over Cabinet Lineup Viewed

*OW2702142790 Tokyo THE DAILY YOMIURI in English 26 Feb 90 p 1—FOR OFFICIAL USE ONLY*

["Political Pulse" column by YOMIURI SHIMBUN political editor Raisuke Honda: "Abe, Kaifu Clash Over Cabinet Lineup"]

[Text] Sparks are flying as Prime Minister Toshiki Kaifu and his rival, former Liberal Democratic Party [LDP] Secretary General Shintaro Abe clash over the lineup of Kaifu's second cabinet which is scheduled to be inaugurated on Tuesday.

Abe, who has long cast a covetous eye on the prime minister's post, now sees it slipping further from his grasp as Kaifu rides high on the LDP's better-than-expected showing in the Feb. 18 House of Representatives [election]. Abe is determined to keep his influence within the party strong and at the same time clip away at Kaifu's support base by maneuvering his men into the LDP's top three posts and the Kaifu cabinet.

The preelection Kaifu, who was always ready to bow to the will of his superiors, has disappeared. Now full of confidence, the postelection Kaifu seems to be a Kaifu who can say no.

Smart enough to realize that his influence lies in the goodwill of the public, Kaifu decided that he would not allow the Recruit scandal to contaminate his new government, refusing to appoint LDP members with Recruit connections to either the top three LDP poss or to posts in his new cabinet. He conveyed is decision to the leaders of the Abe and Miyazawa factions, both of which are maneuvering to place their own members in these high-powered posts.

Miyazawa, who had been pushing to get Recruit-tainted Koichi Kato in as LDP General Council chairman, bowed to Kaifu's wishes and dropped Kato for the clean Takeo Nishioka.

Abe, on the other hand, refused to back off from his plans of getting faction member and recruit-tainted Mutsuki Kato in as the powerful Policy Research Council chairman. Abe reportedly threatened that his faction would refuse to support the Kaifu cabinet if Kato was turned down as Policy Research Council chairman. Kaifu backed down and agreed to appoint Mutsuki Kato for the post.

Kaifu also went to seek the blessings of the Abe and Takeshita factions on his plan to replace all Cabinet members except popular Finance Minister Ryutaro Hashimoto (from the Takeshita faction) and Foreign Minister Taro Nakayama (from the Abe faction).

Shin Kanemaru, Takeshita's mentor and chairman of the Takeshita faction, approved the new cabinet lineup, but once again, Abe balked. Abe told Kaifu that his faction wanted to see Yoshiro Mori, who received prefloated Recruit Cosmos shares, replace Nakayama as foreign minister.

Though Kaifu gave into Abe on Mutsuki Kato's appointment as Policy Research Council chairman, he seems determiend to hold firm on the cabinet lineup, saying he will make no concessions on his cabinet choices.

In a YOMIURI-sponsored postelection discussion attended by the leaders of the four LDP factions, the moderator asked each if they were prepard to cooperate with the Kaifu cabinet. While Miyazawa said that he backed the cabinet 100 percent, Abe said he could not give is support.

Abe is concerned that kaifu is in a good position to consolidate his power in the LDP, which will further reduce Abe's shot at the prime ministership. Kaifu, meanwhile, sought to appease Abe by appointing weaker, less influential Abe faction members to posts in his cabinet. Of course, Abe knows this and has fought and will continue to fight to get strongmen Kato and Mori into the key LDP posts. In this way he hoped to get some leverage on the cabinet and the party in general.

### Cabinet Formation Process Seen as Bad Sign

*OW0303192090 Tokyo THE DAILY YOMIURI in English 1 Mar 90 p 1—FOR OFFICIAL USE ONLY*

[Text] The fierce power struggle among the Liberal Democratic Party's [LDP] five major factions that characterized the formation of the second Kaifu cabinet indicates that the ruling party has completely forgotten its preelection promises to act with more political decorum, observers said. They added that the prolonged intraparty tug-of-war not only demonstrated the weak leadership of Prime Minister Toshiki Kaifu but left the factions led by former LDP Secretary General Shintaro Abe and former LDP Policy Research Council Chiarman Michio Watanabe in a resentful mood.

Abe had to abandon his goal of placing Yoshiro Mori, a leading member of his faction implicated in the Recruit scandal, in the cabinet, while Watanabe failed to obtain a place for Takayuki Sato, former LDP deputy secretary general who was convicted in the Lockheed payoff scandal.

Bad feelings in the two factions may lead to pressure that could force Kaifu to abandon his premiership in the future, the observers said.

According to LDP sources, Sato's quest for a cabinet position hinged on a contest of strength between Watanabe, who had just taken over the faction of former prime Minister Yasuhiro Nakasone, and Kaifu, sticking to his intention to reject anyone even lightly tainted in either of the two scandals.

Although he earlier encouraged Watanabe to fight to the last, Nakasone reportedly advised the faction leader to give up to protect Sato from public ridicule as the negotiations dragged on. He reportedly said; "I can't stand watching this. It's time to give up."

Although the jockeying to from the cabinet seemed to proceed smoothly after that contretemps, the negotiations for ministerial posts ran into numerous snags.

After the resistance of the Watanabe faction and of outgoing Chief Cabinet Secretary Mayumi Moriyama, who had clearly stated her wish to retain the post, other factions were encouraged to grapple with Kaifu, the observers said. Accordingly, it was not until shortly before 1 a.m. Wednesday that Moriyama's replacement Misoji Sakamoto was able to announce the new cabinet lineup.

Of the five major LDP factions, the Abe faction was the most persistent in its bargaining for cabinet posts, LDP sources said. Kaifu originally offered the faction the Health and Welfare Ministry for Akira Ono, the Management and Coordination Agency for Shunpei Tsukahara, and the Environmental Agency for Tomio Yamamoto, in addition to retaining Taro Nakayama as foreign minister.

The Abe faction initially demanded the construction ministry portfolio, but the Takeshita faction objected and the Abe faction was instead offered the health and welfare minister's post and the other "lesser" posts, the sources said.

### Editorial Views Prospects for Kaifu's Cabinet

*OW0303183090 Tokyo THE DAILY YOMIURI in English 2 Mar 90 p 6—FOR OFFICIAL USE ONLY*

[YOMIURI SHIMBUN 28 February editorial: "Kaifu's New Cabinet"]

[Text] Unfortunately Prime Minister Toshiki Kaifu's second cabinet appears to have bleak prospects as a result of the wrangling within the Liberal Democratic Party [LDP] over its composition.

In forming his cabinet, Kaifu attempted to reject politicians involved in the Lockheed and Recruit scandals. However, Michio Watanabe demanded a cabinet post for Takayuki Sato who was involved in the Lockheed scandal. We cannot understand Watanabe's high-handed attitude. In the past, prime ministers have clashed with faction leaders because they tried to include faction members in the cabinet in disregard of the leaders' desires. This was a new twist.

As it turend out, Kaifu had his way. But the dispute showed clearly that Kaifu lacks strong leadership.

Kaifu's policy of forming a "clean" cabinet is praiseworthy. However, this raises questions over when Diet members, who were "purified" by reelection and cleared by the LDP can rejoin the party and serve in high posts. There seems also to be the need to consider their constituents who reelected them.

**Tough Tasks Ahead**

Ambiguous answers to these questions were in part the cause of the confusion in forming the cabinet.

The disarray showed the LDP does not fully recognize the overriding importance of current events. Japan is confronted with an array of problems at home and abroad.

Kaifu's first task will be to rebuild relations with the United States which have reached a critical stage. For this reason, Kaifu's summit meetings with U.S. President George Bush on March 2 and 3 will be the most crucial in the postwar era.

In the Structural Impediments Initiative (SII) talks, the United States has demanded that Japan reform its land policy, agricultural administration and distribution system. Japan cannot ignore these demands and must, in fact, respond positively to support the interests of consumers.

It is inevitable that there will be opposition to the implementation of any reform. But if Japan shies away from the hard decisions, it will find itself in an even more precarious position in the future.

**Need For Unity**

It is hoped that the Kaifu cabinet will take resolute actions on these issues. To do this, the LDP must unite to support the cabinet. But how can Kaifu assert leadership while moves to displace him permeate segments of the party?

Japan has the responsibility to play a big role in the formation of a new international order. To accomplish this task and duty, the people must change their attitudes and political leaders must help accomplish this change.

If the unstable political situation continues to prevent the LDP from concentrating on this great enterprise, this will cause distrust of Japan abroad and create the danger of this country becoming isolated in the international community.

Problems also abound on the domestic front. Political and electoral reforms and the review of the consumption tax are some of the problems left to be solved.

We urge the Kaifu cabinet and the LDP to tackle these problems together instead of wasting energy on intra-party factional power struggles. The government party owes this to the people.

## Kaifu Administration Viewed as Still Fragile

*OW0303191790 Tokyo MAINICHI DAILY NEWS in English 1 Mar 90 p 1—FOR OFFICIAL USE ONLY*

[Text] Prime Minister Toshiki Kaifu may have seen the ruling Liberal-Democratic Party's (LDP) victory in the House of Representatives election as a vote of confidence in his premiership, but his defiance of the wishes of certain powerful party elders in the selection of the new cabinet seems to have put him on political quicksand.

The ruckus over Kaifu's announcement that scandal-tainted Diet members would be excluded from his cabinet has left him very unpopular with the king-making LDP faction leaders who boosted him to power last summer. What has irked some party elders was Kaifu's independence in creating his second cabinet without holding back-room negotiations.

Snapped one Takeshita faction official: "Kaifu doesn't have enough savvy about picking people. The Kaifu administration won't last until summer."

The Abe and Watanabe factions, which played roles in boosting Kaifu to the premiership despite his weak power base within the LDP, are also bridling. Even LDP Secretary General Ichiro Ozawa, who has supported Kaifu up until now, seems to have grown distrustful of the prime minister. Ozawa's supporters are steaming because in their view, by making political adjustments himself, Kaifu has usurped Ozawa's traditional role as LDP secretary general.

Despite the LDP's winning a solid majority of 286 seats in the lower house, a triumph that enabled Kaifu to retain his post, there is still a strong anti-Kaifu current flowing in the ruling party.

Any slips in heading the Diet or in the U.S.-Japan Structural Impediments Initiative talks could provide a chance to change the government, or if the budget deliberations are stalled, it could spell the demise of the Kaifu administration, according to LDP insiders. Some LDP elders do not consider Kaifu's administration to be

a "genuine" government, and those looking to oust him may be provided the opportunity by the numerous political perils that face Kaifu, such as a Diet deadlocked over the ruling party's clash with the opposition on the controversial consumption tax.

A certain politician with a cabinet portfolio was heard to sigh with relief right after the general election, commenting: "Well, the sooner Kaifu is made to resign the better. He doesn't have the vision or the leadership ability to deal with serious domestic and foreign situations."

The Kaifu administration's two-pronged Achilles heel consists of a perceived lack of diplomatic vision and the fact that his Diet policies are completely dependent on the Takeshita faction, the largest group within the LDP. Under such circumstances, Kaifu's political career can be easily put to an end depending on Takeshita faction's movements.

### Editorial on Prospects of New Kaifu Cabinet

*OW0203012190 Tokyo ASAHI EVENING NEWS in English 28 Feb 90 p 6—FOR OFFICIAL USE ONLY*

[Editorial: "Kaifu Stands Tall, But..."]

[Text] The formation of the second Kaifu cabinet was tough going as a result of steamrollering by the Watanabe faction for a cabinet post for Takayuki Sato, who was found guilty of involvement in the Lockheed scandal and whose suspended sentence has expired.

Prime Minister Toshiki Kaifu intended to spell out his posture of grappling with political reform by trying to avoid selecting lawmakers linked with the Recruit influence-buying and other scandals for Liberal-Democratic Party (LDP) leadership positions and cabinet posts. At that, the Watanabe faction demanded a post for Sato, thereby preventing Kaifu from forming the cabinet before midnight.

The scramble by the factions for cabinet posts was furious. The developments suggest that the authority of a prime minister, who is empowered to select his cabinet ministers, was abused by party factions. It might be said that the evils of the LDP's factional politics, where preference is given to the faction's interests over the nation's, have come to the force. It also gives us no satisfaction that not a single woman was named to the cabinet.

The restoration of confidence in politics must be the highest priority not only for the Kaifu cabinet but for the ruling party as well. Virtually no progress was made on political reform under the first Kaifu cabinet. In the selection of party executives this time, Shintaro Abe's faction took what it had wanted to take. Given these episodes, there is a danger that the logic of factionalism alone might dominate. The LDP has time and again pledged to purge factional evils, but is that pledge merely lip service and nothing else?

Disgraceful was former Finance Minister Michio Watanabe, intent on becoming LDP leader in the future, who persistently tried to steamroller his faction's egotistical demands, even though he himself was involved in the Recruit scandal. In the end the prime minister accomplished his initial goal, but he had better have renewed determination to take the lead in stepping up political reform, no matter what resistance there may be within his own party.

Although it may have been overshadowed by the Watanabe faction's tactics on behalf of Sato, the reappointment of Finance Minister Ryutaro Hashimto and Foreign Minister Taro Nakayama prominently stands out. The fundamental idea is said to have been to produce a lineup of business-first personalities who could swing the new cabinet into action immediately after its inauguration. To be sure, there is a mountain of issues that has to be handled immediately.

The parliamentary election for prime minister differed from Kaifu's last nomination, in that a showdown vote was taken in the upper house, but he was nominated by both houses of parliament. Reflecting that the Japan Socialist Party turned out to be the sole winner among the opposition parties in the lower house's general elections, there is the impression that coordination among the opposition parties has subtly changed.

Nonetheless, the reversal in the balance of power between the ruling and the opposition parties in the upper house and the confrontation over the consumption tax remain unchanged from before the general elections. What the new cabinet has to grapple with is how to enact a budget and related bills. In all probability, it will feel like it is treading on eggs in steering the Diet. Here again, the prime minister's political capability will get a tryout.

The LDP has a policy of embarking upon a drastic revision of the election system, including reform of electoral districts, by taking advantage of the centenary of the Diet's founding this fall. Depending on the moves of the ruling party, it is inevitable that resistance by the opposition parties should intensify. This is yet another challenge the new cabinet has to face.

Prime Minister Kaifu is to hold talks with President George Bush. He is to visit the United States, itself a virtually unprecedented somersault. Fed up with U.S.-Japan talks in which Japanese bureaucrats always come out on top, the Americans hope for solutions which will come out from the broader perspective of Japanese politicians.

It is necessary that each cabinet minister share the responsibility of finding solutions to outstanding issues. Fanned up by a sense of crisis, the LDP has made a large number of introverted pledges in attempts to safeguard

the vested interests of corporations and other organizations. Not a few of the new cabinet ministers must have given out "promissory notes." Nonetheless, the new cabinet is urged to do its utmost, taking account of the international position in which Japan now finds itself.

Despite the LDP's sweep in the general elections, stock prices on the Tokyo Stock Exchange chalked up the second biggest drop in history two days before the new cabinet's inauguration. Besides, the ongoing weakness of the yen reflects the sense of uneasiness abroad about the LDP government.

It is up to the second Kaifu cabinet, which takes the reins of government at the outset of the 1990s, to energetically step up political reform and grapple with the Japense economy's internationalization, while striving to stabilize Japan's economic performance and the national life.

Prime Minister Kaifu exposed the vulnerability of his power base in the governing party. Things having come to this pass, there is no choice but for him to burn his bridges behind him.

### Column Examines Kaifu's Cabinet Formation

*OW2502122190 Tokyo THE DAILY YOMIURI in English 24 Feb 90 p 3—FOR OFFICIAL USE ONLY*

["Political Beat" column by Toshiyuki Takahashi: "Kaifu, Abe Jockey for Posts"]

[Text] Prime Minister Toshiki Kaifu is fighting for his survival as he begins his reshuffle of the Liberal Democratic Party [LDP] and the cabinet after Sunday's win in the House of Representatives election.

Throughout the election campaign, both former Prime Minister Noboru Takeshita and former Deputy Prime Minister Shin Kanemaru touted the importance of an LDP win in the lower house. Critics say this is because the two LDP's power brokers viewed the election as a golden opportunity to hand the political reins from Kaifu to former Secretary General Shintaro Abe.

Unfortunately for Kanemaru and Takeshita, the LDP's landslide win turned out to be an "overkill," dampening their plans to oust a formerly unpopular prime minister.

Despite all the political maneuvering in the background, Kaifu stands firm on his right to decide cabinet posts, indicating his confidence as party leader and mediator of one of the biggest crises since the LDP's formation.

Kaifu's stance also shows that he is fully aware that the selection of the new lineup will decide the future of his second administration.

Kaifu intends to exclude influential politicians whose public image has been dirtied by the Recruit influence-peddling scandal from both the cabinet ministerial posts and the three party executive positions.

The one compromise Kaifu made in the power struggle was to appoint Mutsuki Kato to the post of Policy Research Council chairman. But he stood firm by appointing Takeo Nishioka of the Miyazawa faction to the post of General Council chairman, instead of Recruit-tainted Koichi Kato of the same faction, the man initially regarded as the strongest contender for the job.

Kaifu's determination to exclude Recruit-tarnished politicians from the new cabinet is more than a move to ward off public criticism.

He has his own skin to protect. Abe is maneuvering to acquire influential posts for two of his proteges—for Kato an executive party post and for Yoshiro Mori a cabinet minister post. As the faction paves the way for Abe to assume the leadership at any time, Kaifu is faced with a framework that could eventually lead to his downfall.

Under the circumstances, it seems more than likely that Kaifu will avoid most problems by leaving out Recruit-linked politicians from his administration.

Unfortunately for Kaifu, Mori is not among the 13 politicians whose reputation was soiled through dealings with Recruit. The way is clear for Mori, therefore, in the new administration. But the going will be rough at first in Mori's climb to the cabinet, since Abe is focusing his powers on getting Kato into a party post first.

Political observers are keeping a close eye on the situation, based on their analysis that once Mori and Kato are on the inside, Abe will have the framework to boost himself to the leadership and Kaifu will have a lot of problems on his hands.

As political observers contend, keeping Mori out of the cabinet will keep Kaifu in the leadership, secure and ready to enjoy a steady long-term administration.

Meanwhile, former Finance Minister Kiichi Miyazawa's hopes to return to the cabinet have been dashed. Miyazawa's faction claims that a conspiracy within the party kept him out.

The complaints seem like nothing more than sour grapes. The decision to exclude Miyazawa from the new Kaifu administration lineup was made after close consultations between Kaifu and Miyazawa. Kaifu seems to have taken the "I owe you one" stance with Miyazawa, who agreed to step down from the political limelight to concentrate his political influence to support the Kaifu administration.

### Moriyama Protests Being Left Out From Cabinet

*OW0103050990 Tokyo ASAHI EVENING NEWS in English 27 Feb 90 p 3—FOR OFFICIAL USE ONLY*

[Text] Apparently left out from the new cabinet starting today, Chief Cabinet Secretary Mayumi Moriyama, the

nation's first chief government spokeswoman, Monday, made an angry protest against the man who picked her for the post last year—Prime Minister Toshiki Kaifu. Moriyama is expected to be replaced by Misoji Sakamoto, a key member of the Komoto faction, in the second Kaifu cabinet. Moriyama belongs to the same group, headed by former State Minister Toshio Komoto who once ran for president of the Liberal-Democratic Party [LDP].

Moriyama had a face-to-face meeting with Prime Minister Kaifu in his executive office at the prime minister's official residence Monday afternoon amid rumors that she was being "dumped." She protested angrily to the prime minister, saying that she had stumped across the country during the recent election campaign to drum up support for the Kaifu cabinet and thus helped bring about an election victory for the ruling party, sources said.

Moriyama was angry, in part because the two key posts of foreign minister and finance minister were being retained by the same men. She could not understand, the sources said, why only she was being left out while other key ministers were staying on. She was also unhappy, they said, because the other woman minister—Sumiko Takahara, director-general of the Economic Planning Agency—was expected to remain in her post. Moriyama held that post before she was appointed chief cabinet secretary.

"If I leave while she (Takahara) stays on, voters will get the impression that I have flopped," one source close to the prime minister quoted Moriyama as saying.

An elderly member of the LDP said she may have been used for publicity purposes, to burnish the image of the Kaifu cabinet, adding, "if she is being dumped as rumors are saying, my sympathy goes to her."

Moriyama took up her present post after her predecessor, Tokuo Yamashita, resigned in disgrace following revelations about his romantic relations with a former geisha.

### Kaifu's Future May Be Swayed by Factions

*OW0403000390 Tokyo ASAHI EVENING NEWS in English 2 Mar 90 p 6—FOR OFFICIAL USE ONLY*

[Unattributed "Political Spectrum" column: "Kaifu Fights for His Survival"]

[Text] Prime Minister Toshiki Kaifu refused to appoint scandal-tainted politicians to his new cabinet this week not only to keep his clean image but also to prevent himself from being unseated. He wanted to "contain" the factional chiefs implicated in the Recruit stocks-for-favors scandal. At least, that was the way the factional chiefs in question interpreted Kaifu's moves.

Shintaro Abe, former secretary general of the ruling Liberal-Democratic Party [LDP], and Michio Watanabe, who had inherited the party's fourth largest faction last week, drove hard bargains with Kaifu because their political reinstatement was involved. Up until the Feb. 18 lower house election, they were barred from assuming posts under the party's punitive measures. They now aspire to succeed Kaifu as LDP chief and prime minister.

Kaifu rejected Watanabe's demand that Takayuki Sato, a Diet lawmaker convicted of taking a bribe in the Lockheed payoff scandal, be named to his new cabinet. The period of suspension for Sato's prison sentence has expired. But Abe had succeeded in getting Kaifu to appoint Mutsuki Kato, a Recruit-tainted politician, as chairman of the LDP Policy Board. Abe and Watanabe insisted on their demands because they thought that a success in their quests would pave the way for their own reinstatement.

The prime minister had also rejected a ministerial appointment for former Education Minister Yoshiro Mori and refused to name Koichi Kato, former director general of the Defense Agency, to the LDP leadership on grounds of their involvement in the Recruit affair. The appointment of Koichi Kato had been backed by former Finance Minister Kiichi Miyazawa, another faction chief implicated in the Recruit case and also a presidential aspirant, but Miyazawa agreed to withdraw his recommendation for Kato at Kaifu's request.

As Kaifu firmly held out against a Sato nomination, the formation of the new Cabinet was badly delayed. Aides to the prime minister later said his refusal to bring any scandal-tainted politician into the new cabinet had favorably impressed the public. But some of them expressed concern that Kaifu may have sown the seeds of future trouble.

A Kaifu aide said: "After the election victory, the prime minister seems to think that he can have his way if he persists. I hope his confidence will not prove counterproductive."

The political reform program the LDP adopted last year in the wake of the Recruit scandal called for an end to excessive factional politics. But the maneuvers of the Abe and Watanabe factions showed that factional politics has fully revived.

Kaifu's power base within the LDP makes him fear an intraparty campaign to unseat him. He belongs to the smallest LDP faction, led by former State Minister Toshio Komoto. To insure himself against such a drive, he had asked former Deputy Prime Minister Shin Kanemaru, chairman of the largest faction headed by former Prime Minister Noboru Takeshita, to join his new cabinet and also sought to appoint someone from the Takeshita group as chief cabinet secretary, a key ministerial post.

While Abe was not so insistent on a Mori nomination to the cabinet as he had been on Mutsuki Kato, Watanabe had reason to be adamant. Watanabe needs to consolidate support within the faction he has inherited, a group

previously led by former Prime Minister Yasuhiro Nakasone. He presumably thought that getting Sato, a Nakasone confidant, nominated to the cabinet would serve that purpose and also to demonstrate his leadership.

Although Watanabe failed to win a ministerial post for Sato, there was speculation that Kaifu, Watanabe and LDP Secretary-General Ichiro Ozawa had come to a tacit agreement on granting Sato his wish when the cabinet was reshuffled next time. Sato had shown his competence in negotiations with other intra-LDP factions and played a role in Watanabe's factional succession. Watanabe probably felt he owed Sato a reward.

Backing Watanabe, Toshio Yamaguchi, the Watanabe group's secretary-general, said: "After his involvement in the Lockheed affair, Mr. Sato has repeatedly been 'baptized' by elections. It's only natural to give a chance to such a politician."

The major LDP factions made no attempt to mediate in the dispute over Sato because they thought that they stood to gain from any damage Kaifu might suffer in the haggle with the Watanabe group. The Abe group even advised the Watanabe faction informally that the intransigence on Sato was "understandable." The factions, excepting the Komoto group, do not want Kaifu to aim at staying in office for a long time.

The unsuccessful bid to secure a Cabinet portfolio for Sato was worth the trouble for the Watanabe faction. As if to compensate for his rejection of Sato, Kaifu gave the group a key post, the minister of international trade and industry, and a "lucrative" portfolio, the posts and telecommunications minister. The Abe and Miyazawa factions tried unsuccessfully to secure the latter post for themselves.

### Editorial Comments on Kaifu's Policy Speech

*OW0403124590 Tokyo ASAHI EVENING NEWS in English 3 Mar 90 p 6—FOR OFFICIAL USE ONLY*

[Editorial: "Divining Kaifu's Intentions"]

[Text] Prime Minister Toshiki Kaifu must have been looking forward to the opportunity of delivering his policy speech to the Diet. Leaders of the ruling Liberal-Democratic Party denied him the opportunity prior to the dissolution of the lower chamber. But his party secured a comfortable majority in the general elections, betraying most predictions, and Kaifu managed, after some infighting, to bar the appointment of scandal-tainted politicians to ministerial posts in his second Cabinet.

His policy speech gave the impression that the election results inspired Kaifu with confidence. His feelings may be inferred from the beginning of the speech, where he summed up his trip to East Europe and said, "The words of the prime ministers of Poland and Hungary are still vivid in my ears."

As his basic stance towrd international politics, the prime minister said, "We have to strive to develolp diplomacy endowed with intent." The Japanese people would like to ask what Kaifu's political intentions are. The same question probably haunts people overseas, since Japan's presence is growing larger.

The intent of his foreign policy seemed clear when he said, "We cannot make contributions to the international order by a policy of force, but will try to play a positive role in building a new world through dialogue and cooperation." Kaifu said he will declare a basic stance on defense, disarmament and economic cooperation that will show the "determination of Japan in the Heisei era."

The contents are not new at all. We give the speech high marks, however, because the prime minister showed he is free of hawkish attitudes. "Japan shoule not become a power that might pose a military threat to any country in the world." He said. "We will further strengthen diplomatic efforts to promote arms control and disarmament."

His intentions in domestic affairs seem to lie in "constructing a fair and happy society." The prime minister cited three tasks: ensuring the welfare of an aging population, solving land and housing problems, and reducing price differences between Japan and abroad. The Japanese would like to see visible results on at least one of these issues.

On land and housing problems, the prime minister showed his eagerness by detailing some specific policies. He said that the government will overhaul the land-tax system and get legislation through the Diet by the end of fiscal 1990. He said the government will endeavor to levy the same taxes on metropolitan farmland as on residential land starting in fiscal 1992. And Kaifu did not fail to include in his policy speech an LDP campaign pledged to provide 1 million new houses in areas within commuting distance of Tokyo in 10 years.

It would be great if all this came true. But realizing fair housing requires determination to stand up to a variety of special interests. It is the very way in which the LDP administers the affairs of state, by making compromises in exchange for votes that has left such interests long untouched. Taxation on metropolitan farmland is a typical example. Kaifu thus faces a dilemma in addressing this problem.

The same holds true with enforcement of the Large-Scale Retail Stores Law and Anti-Monopoly law and the issue of price diferentials between Japan qand abroad, topics taken up in the Japan-U.S. talks on structural trade and investment barriers. These problems, too, boil down to the nature of Japanese politics and administration, which has preserved vested interests at the expenses of consumer intersts. The nature of Japanese politics is under fierce criticism both in Japan and overseas, and

the prime minister must not only demonstrate the will to slash such interests in domestic and foreign affairs but also actually do so.

Kaifu's power base in the LDP is fragile even though the governing party won the general elections. His hardest challenge is to obtain support from within his party, a task he was unable to achieve when he failed to set up a group of ministers and LDP executives to cope with economic frictions with the United States.

In the end, the only ally Kaifu has in achieving his aims is public opinion. It is therefore imperative that he clarify his policy objectives, make public as much information as possible, and show where problems lie and how they are to be tackled.

### View of Defeated Prominent LDP Candidates

*OW2202034690 Tokyo ASAHI EVENING NEWS in English 19 Feb 90 p 2—FOR OFFICIAL USE ONLY*

[Text] Transport Minister Takami Eto lost his seat in the House of Representatives in Sunday's general election. Eto, who belongs to the faction led by former Prime Minister Yasuhiro Nakasone, assumed the post when Prime Minister Toshiki Kaifu formed his cabinet last August.

He was running in the No. 1 constituency in Miyazaki Prefecture, Kyushu, in a bid to serve an eighth term in the Diet. Eto, 64, served as construction minister in the Nakasone cabinet.

Sadanori Yamanaka, former chairman of the Liberal-Democratic Party's [LDP's] Research Commission on the Tax System, also lost his seat. Yamanaka, a former Defense Agency chief and international trade and industry minister, was an architect of the government's consumption tax, introduced last April.

The 3-percent tax was regarded as one of the main causes of the LDP's historic defeat in the election for the House of Councillors in July last year.

Yamanaka was running in the No. 3 constituency in Kagoshima Prefecture for a 14th term in the Diet.

Former Defense Agency Director-General Joji Omura, former Labor Minister Mitsuo Horiuchi, and former Agriculture, Forestry and Fisheries Minister Hisao Horinouchi also failed to retain their seats in the Diet.

Horinouchi made controversial remarks last July to the effect that women are useless in politics and should stay at home. He directed his remarks at Japan Socialist Party Chairwoman Takako Doi, saying she is single and childless and that the post of premier is beyond her capacity.

Another former Defense Agency chief and former labor minister, Raizo Matsuno, also lost his seat. Matsuno, 73, former chairman of the LDP's Executive Board, was running in the No. 1 constituency in Kumamoto Prefecture.

Deputy Chief Cabinet Secretary Takao Fujimoto also lost his seat. He replaced Setsu Shiga, who assumed the post of director-general of the Environment Agency, on Aug. 25, and was running in the No. 1 constituency in Kagawa Prefecture for a ninth term in the Diet.

Former Construction Minister Kosei Amano also failed to retain his seat.

### * Political Choices in Changing World Reviewed

*902B0066A Tokyo NIHON KEIZAI SHIMBUN in Japanese 19, 20 Jan 90—FOR OFFICIAL USE ONLY*

[By Nikkei editorial staff writers, Masao Kanezashi and Akira Kojima]

**[Morning 19 Jan 90 p 1]**

[Excerpts] **Truly Affluent Society at a Fork; Handling of Rapid Changes at Home and Abroad Questioned** [passage omitted]

This general election, in which there will be a large-scale change of generations, is being conducted right in the midst of a turning point in history with the crumbling of the cold war structure that has shaped post-war international society. For that alone, it is a general election which goes beyond the simple rise or fall of one political party or faction and questions the ideal government to deal with the rapid changes in the situation at home and abroad. It literally is a political choice for the 21st century. [passage omitted]

In this general election, like the House of Councilors election, the policy issues continue to be the consumption tax, agricultural policy, and political reform. In that alone, the opposition parties, who are highlighting their opposition to the consumption tax, cannot clasp hands with the LDP immediately after the election. That is because it would lack moral justification. The reason is that apart from the intentions of the LDP, a coalition government, not to mention a so-called majority-minority party coalition which is a policy coalition, probably will not be realized so easily. [passage omitted]

#### "System Fatigue" Advances

The defeat of the LDP in the last House of Councillors election and the crumbling of LDP one-party rule or beginning of a coalition age invited by that has, from another point of view, an aspect which can be called "system fatigue."

In other words, it is the view that the abuses accompanying one political party monopolizing political power for over 30 years without a change have become conspicuous and there is flooding criticism of those in power.

The Recruit scandal was one direct example of that, but it can also be expressed as "system fatigue" with politicians and political parties becoming rigid in their attitude and unable to act flexibly. They cannot deal flexibly with the environment at home and abroad or the changes in the times because they give priority to electoral districts where they will not be deprived of their vested interests and to the interests of pressure groups and politics always goes around with its hands behind its back.

The issue which should be the aim of Japanese politics today is the building of a truly affluent, equitable society. To do that, it is necessary to make a searching inquiry into land problems, the ideal tax system, the complexity of the distribution structure, administration of subsidies, and administration of permits which are strongly colored by regulations, which can be called obstructive factors, but politics so far has not been quick to act on effective measures.

As the words "family" Dietmen have become firmly rooted, politics has become tied to individual interests through amassing votes and procuring political funds, and there is an overriding tendency to give priority to the interests of those with loud voices and the interests of the individual rather than the interests of the people. Selection of candidates by giving preference to incumbents has given birth to a large number of eternal dietmen and promoted rankism and a bureaucratic nature within political parties.

In this general election, which is being executed at a decisive point in post-war politics, the retirement of senior politicians has been conspicuous and a change of generations is bounding ahead. Moreover, the rapid changes in the situations at home and abroad which have surfaced from last year to this year have made it actually feel like a change of eras. It cannot be said that Japanese politics has no connection with the changes at home and abroad.

The great turnabout in international politics from opposition to cooperation demands a reexamination of the division and policies of political parties rooted in a cold war structure. Moreover, doubt has been cast on whether the fence battles between political parties which have opposed each other and quarreled with each other with ideology and security and defense policy as the yardsticks are not a dead argument.

**Departure From Existing Notions**

Looking at events at home and abroad today, reality cannot be seen in the previous simple division into conservatism and reformism. It is a time when a reorganization and reconcentration of political power will be expected, should it be necessary, to build an affluent and equitable society.

Even in a general election where victory and defeat have become the greatest focus between political parties, departure from existing notions and selection from a broad viewpoint fixed on the times is necessary. Observing the people who seek political reform in Eastern Europe and the Communist bloc, the significance of the election and the weight of one vote are strongly felt anew.

**[Morning 20 Jan 90 p 1]**

[Text] **Positive Contribution to International System; Time To Shed facade of Concentration on Economy**

The "post-war period" has ended. The world system has been dramatically transformed in political, military, and economic aspects as rightly premised by Japan. There is still no new consensual system. We have entered a lengthy age of adjustment as we grope for a new world system. While, on the one hand, expectations and threats concerning the enormous growth of Japanese money are increasing in this changing world, various nations have their eyes fixed on what ideology and world view Japan will have in exerts its economic influence.

**Japan Is the Enemy**

Prime Minister Kaifu rushed around Europe selling an image of a "Japan aggressively participating in the formation of a new international order." Financial support for Eastern Europe was money directed to that end. However, right in the midst of the prime minister's visit to Europe, France's incumbent Minister of European Affairs Cresson declared, "Japan is the enemy."

As may be expected, there were refutations from cabinet colleagues to the speech of Madame Cresson who said, "Japan does not obey the rules and is trying to conquer the world." However, not only in the United States, but also in Europe, the cautionary feeling toward Japan clearly is growing stronger. Admiration for Japan's economic success suddenly has turned to a sense of being threatened, and it is becoming a situation in which even hostility is liable to surface.

This is the very reality directly facing Japan in the midst of the end of the post-war period. Japan's strategy in dealing with this is being questioned.

That does not mean that there was no strategy or great political choice in post-war Japan. The "Yoshida line," which emphasized dependence on the United States, being a lightly armed peace-loving nation, and giving priority to economic development, was the great choice considering the political and economic environment at home and abroad at the time. It was also appropriate. This course of economic concentration formed one base that made possible today's Japanese development.

Since then, however, there have been no great political choices. Since there was national agreement on economic revival, pursuit of wealth, and playing catchup with the advanced nations of Europe and the United States, politics even unnecessary.

Now, however, that the post-war period has ended, politics has become decisively necessary in Japan. Peter

Drucker stresses that, "For the first time, politics has become important to Japan, the only one in the world who abandoned military and political priorities and directed itself toward economic development. They must extricate themselves from economic concentration."

**Demands by Various Nations**

That is probably true. The reason lies in the following characteristics of "the end of the post-war era."

1. The termination of the East-West cold war due to the self-destruction of the Socialist bloc.

2. The subsiding of regional disputes extending beyond national borders.

3. A priority shift from the military to the economy.

4. Mutual economic dependence, deepening of globalization, and forming of an international economic system.

5. A comparative reduction in U.S. national power and a comparative, absolute elevation of Japanese economic power.

Japan's position in the world has completely changed. As suggested in the words of Harvard Professor Joseph Nye that "One of the most dramatic changes in world politics has been the increase in Japanese economic power," Japanese economic power has become a political problem for various countries and, as a result, for Japan. As the military threat has receded for various nations due to (1) and (2), the glue solidifying the ally relationships of Western nations has begun to dissolve.

Global level environmental problems and economic support for Eastern Europe are being added to the negotiation themes of the summit meetings of the advanced economic countries, which began in 1975 out of a sense of crisis for the free economic system following the occasion of the oil crisis.

Also factor (4) has created international cooperation. The scope pertaining to "noninterference in internal politics" that previously was an important rule of foreign policy is narrowing rapidly. A high official in the U.S. State Department has made the analysis that, "Foreign policy issues now are directly connected to the lives of the people. Foreign policy problems have become domestic problems and the tense relationship between the two has increased markedly."

Thus, various countries have increased their demands on the domestic policies of the economic superpower Japan. The U.S.-Japan Structural Impediments Initiative [SII] conference is a typical example.

For Japan, the maintenance of the free economic system is a matter of life and death. To maintain that, however, Japan itself must show in its record that a free economy is good for various nations also. Provision of an aggressive market for foreign goods is indispensable in this area.

At the end of last year, the United States made demands on Japan at what is popularly called the private version of the U.S.-Japan SII conference held in Annapolis, close to Washington:

- "Direct investments by Japan are fine, but it is strange that U.S. businesses cannot invest in Japan. Reciprocity is necessary."
- "We would like you to demonstrate leadership in global environmental problems."
- "Have common sense befitting a member of international society. Serious consideration for consumers and opening markets are indispensable."
- "Japan doesn't show that it is thinking about the kind of world that is desired."

Given the international system, Japan's economic power has become too big to continue concentration on the economy. Of course, there is danger in having a poor major power consciousness. However, an awareness of responsibilities as a major nation is indispensable.

**Implementation of Maekawa Report**

Though regrettable under the current circumstances, such awareness of responsibility is meager. There even have been some from abroad who say that "On the contrary, Japan is a destroyer of the free economy." In a United National Environmental Program (UNEP) survey, Japan is the nation with the lowest concern about environmental problems. At an environmental conference in The Hague last year, it was reported at home and abroad concerning carbon dioxide regulations that "Japan once again stands alone in opposition."

Speeches and concepts that not one grain of rice will be imported, no matter for what electoral district it is bound, are quite divorced from world reality. At the least, we should move quickly to take the initiative and implement the Maekawa Report agreements. Without that, the post-war period really will not come to an end for Japan.

## Business Leaders Worried About LDP 'Arrogance'

*OW2702140390 Tokyo THE DAILY YOMIURI in English 26 Feb 90 p 8—FOR OFFICIAL USE ONLY*

["Economic Perspective" column by YOMIURI SHIMBUN staff writer Kazunori Ozaki: "Business Leaders Worried LDP Arrogance May Grow"]

[Text] Japanese business leaders hailed the Liberal Democratic Party's [LDP] victory in the Feb. 18 House of Representatives election but many of them say they are worried that the ruling party may become overconfident of public support despite lingering criticism against its political ethics.

Eishiro Saito, chairman of the Federation of Economic Organizations (Keidanren), welomed the LDP victory at a recent press conference, saying: "I am glad that the LDP won as we desperately hoped it would."

The LDP secured 286 seats, including those that joined the party after the election. The result was more than satisfactory, say the business leaders who supported the ruling party, to "protect our free and democratic society."

But Saito did not forget to warn the LDP. "The LDP should not engage in monopoly politics using its majority (in the lower house)," he said.

Eiji Suzuki, president of the Japan Federation of Employers' Associations (Nikkeiren), agreed. "Although the LDP won a stable majority in the election, there still is deep-rooted criticism against LDP politics. The party should not be overconfident," he said. His view is shared by leaders of various industries.

Businessmen geared up their efforts to campaign for the LDP in the fear that the democratic system, under which the Japanese economy prospered, would be destroyed if the LDP lost a majority in the lower house as well. The LDP lost its majority in the House of Councillors election last July.

Their moves were hit by a barrage of criticism at that time. But as beame apparent later, what they really wanted was to stablize Japanese politics with an LDP victory, which meant around 270 seats at most.

Takashi Ishihara, chairman of the Japan Association of Corporate Executives, called the 286 seats the LDP won "much more than he had expected" and voied a concern that the party may become overconfident.

The LDP's "arrogance" was visible immediately before and after the election.

Recruit-tainted politicians, mostly from the LDP, declared tht if they won in the eletion, their "sins" of being implicated in the Recruit influence-peddling scandal would be erased.

After the election, the LDP appointed former Agriculture, Forestry and Fisheries Minister Mutsuki Kato, one of the Recruit-tainted politicians, as chairman of the Policy Research Council, one of the three executives under the party president.

The British newspaper INDEPENDENT reported in its editorial after the general election that Prime Minister Toshiki Kaifu will become even moe of a puppet manipulated by other LDP leaders who believe that their "sins" were erased by the LDP's victory in the election.

## Article on Desire To See LDP-JSP Coalition

*OW2402011290 Tokyo MAINICHI DAILY NEWS in English 22 Feb 90 p 1—FOR OFFICIAL USE ONLY*

[Unattributed MAINICHI SHIMBUN article: "28 Per cent of Voters Prefer To See LDP-JSP Coalition"]

[Text] More than a quarter of voters would like to se some sort of coalition between the ruling Liberal Democratic Party (LDP) and the Japan Social Part (JSP) in the aftermath of a general election in which th LDP managed to hang on to a stable majority while th JSP made significant inroads, according to a MAINICH SHIMBUN voter survey. The survey, which was con ducted by telephone on the day after Sunday's House o Representatives election, asked 1,000 eligible voters hov they felt about the outcome of the election and th resulting shuffle of the power balance in the lower house

While about half of the respondents said they felt satis fied with the result of the election, another 40 percen said they were dissatisfied and only 20 percent approve of the LDP's monopoly on power. Many respondent seemed to feel the time had come for the LDP to shar power with the JSP, the leading opposition party, an that a revision or abolishment of the controversial con sumption tax should be carried out with the participa tion of the opposition.

The 1,000 voters polled came from the No. 3 District i Gumma Prefecture, where former Prime Minister Yasu hiro Nakasone was re-elected despite having played central role in the Recruit stock-for-favors scandal, th hotly contested No. 4 District in Tokyo and the No. District in Hyogo Prefecture. Of these, 87 percent sai they voted in the lower house election, with 19 percen expressing satisfaction at the election's result an another 33 percent saying they were "somewhat satis fied."

Both those satisfied and those dissatisfied said that th election "did not reverse the ruling parties" as th leading reason for satisfaction or dissatisfaction. Th satisfied voters were apparently relieved, while the dis satisfied seemed to feel their expectations had not bee fulfilled.

In addition to the 28 percent of the pollees who though the LDP should share power in some form with the JSF 12 percent thought the four leading opposition partie should form a coalition government. Only 7 percent sai the government should be a coalition involving the LDI Komeito and the Democratic Socialist Party (DSP Another 6 percent said a new party should be create through political reform.

In the most common answer to why someone voted for particular candidate, in which pollees could give up t three answers, 37 percent of the pollees responded tha their decision was based on the candidate's stance on th consumption tax. Thirty-one percent said they voted fo

candidates from the parties they usually support, 24 percent chose candidates for their "stable politics," 19 percent were influenced by the Recruit scandal and 17 percent voted for candidates they usually support.

Women were significantly more influenced in their voting by the consumption tax, with 43 percent of women voting for candidates opposed to it as compared to 31 percent of the men.

Men were somewhat more in favor of a "stable government," which was one of the campaign battle cries of the LDP. Twenty-seven percent of men said they were swayed by the promise of stability, while 22 percent of women said they were. However, 19 percent of women wanted to see a change in administration compared to 15 percent of the men.

Whereas men and women were equally critical of the Recruit scandal, men tended to be somewhat more conservative and women were more severely critical of the ruling party. Also, although few in number, only women answered that they voted for women candidates because they were women.

Of those who voted for LDP candidates, 49 percent said they did so because they usually support the LDP, followed by 45 percent who said they did so to support stability and 16 percent did so because of the consumption tax.

But 62 percent of those who voted for the JSP said they did so because of the consumption tax, with only 23 percent saying they were habitual JSP supporters. Among the JSP voters, 30 percent said the reason was they wanted a change of administration and another 30 percent said they voted for the JSP because of the Recruit scandal.

There were similar voting trends among those [who] voted for other opposition parties, such as Komeito, the Japanese Communist Party and the DSP.

## Opposition Has Difficulty Agreeing on Coalition

*OW2302000690 Tokyo THE JAPAN TIMES in English 21 Feb 90 p 1—FOR OFFICIAL USE ONLY*

[By staff writer Takashi Kitazume: "Opposition Bickers Over How To Achieve Coalition"]

[Text] The non-Communist opposition parties agree on the need for unity following the ruling Liberal-Democratic Party's [LDP's] win in Sunday's Lower House election but do not agree on how greater harmony can be achieved.

While the Japan Socialist Party [JSP], the largest force in the opposition camp, dramatically increased its number of lower house seats in the election, both Komeito and the Democratic Socialist Party [DSP] saw their strength drop in the chamber.

Since April last year, the three parties, together with Shaminren (the Socialist Democratic Federation), have discussed ways to form an opposition coalition government that could replace the LDP-led government. However, Sunday's vote and the upper house contest last July showed that only the JSP has benefitted from popular dissatisfaction with the ruling conservatives.

### Coalition Scheme

Even so, both Komeito and the DSP say they will continue to pursue a coalition scheme with the JSP, although they failed to topple the LDP's lower house majoriy this time. "It is unmistakable that the general public, in the bottom of its heart, wants the opposition camp to be united as an alternative governing force to replace the LDP," Yuichi Ichikawa, secretary general of Komeito, said in an interview.

The JSP, Komeito and the DSP have not yet agreed on a policy platform for a coalition government, particularly on national security, foreign policy and energy issues. It appears that the gap between the JSP and the centrist-conservative policies of the DSP and Komeito remains as wide as ever.

JSP Secretary General Tsuruo Yamaguchi said the JSP has already made concessions, and urged Komeito and the DSP to compromise "in the spirit of mutual concession." "The JSP's big gains in the election indicate that the voters supported the policies of the JSP," he said, indirectly suggesting that Komeito and the DSP follow the party's line.

Takashi Yonezawa, the DSP secretary general, found fault with this thinking. "The responsibility of the JSP is grave in allowing the LDP to retain its lower house majority," he said.

Yonezawa argued that in the lower house election, many voters who were dissatisfied with the LDP still backed the ruling party because the opposition camp failed to present itself as a credible alternative. The JSP is chiefly to blame for that, he added.

"The LDP's control of the government will continue in the future unless the JSP becomes more realistic in its policies," Yonezawa said. He added: "I personally think that the JSP may never change. But to give up urging the JSP to change means to give up hope of taking over government control from the LDP."

At present, the three opposition parties appear to be united in their goal of scrapping the 3 percent consmption tax, and both Komeito and the DSP have ruled out the possibility of a tieup with the LDP.

The JSP's Yamaguchi said: "Our bargaining power with the LDP depends on our unity as a majority force in the upper house against the LDP's control of the lower chamber. The JSP wants both Komeito and DSP to keep this in mind."

**Case-by Case Basis**

But both Komeito's Ichikawa and the DSP's Yonezawa suggested that, on issues other than the consumption tax, their relations with the JSP may change on a case-by-case basis. "Opposition unity may be beneficial for the JSP, but we are not an auxiliary force for the JSP," Ichikawa said.

The JSP has proposed that non-Communist opposition forces pick a common candidate for prime minister in the upcoming special session of the Diet. Neither Komeito nor the DSP, however, has so far warmed to the idea.

## Editorial Urges Unity Among Opposition Parties

*OW2502034490 Tokyo MAINICHI DAILY NEWS in English 21 Feb 90 p 2—FOR OFFICIAL USE ONLY*

[Editorial: "Improve Quality of Politics"]

[Text] In the just-ended House of Representatives election, which gave the Liberal-Democratic Party [LDP] a solid majority, allowed the Japan Socialist Party [JSP] handsome gains but dealt severe setbacks to the Japanese Communist Party [JCP] and two moderate groups, the Komeito and the Democratic Socialist Party [DSP], the nation chose a continuation of the LDP government in an unstable situation where the opposition parties hold a majority in the House of Councillors.

We can consider this political instability as a necessary evil in the process of healthy parliamentary democracy maturing through the 1990s. During this decade, there will be frequent ups and downs in politics, in which public opinion is expected to swing widely. The call by the opposition parties for a coalition government to replace the LDP's long rule was not persuasive enough. Neither was the LDP's insistence on the superiority of liberalism over socialism a valid election issue. Rather, for the first time, the voters had the realistic opportunity of weighing a continuation of one-party rule against a national coalition.

In this sense, the JSP largely gathered anti-LDP votes, while the Komeito, which was cool toward coalition consultations and insisted on a moderate path, sustained a heavy loss. A coalition, however, was impossible among the four opposition parties—the JSP, the Komeito, the DSP and the United Social Democratic Party (USDP)—who were unable to reconcile their differences.

The JSP should strive, however, to strengthen its governing capability with more realistic programs and competent members. At the same time, both the DSP and the USDP now have less reason for remaining separate from the JSP with the emergence last year of Rengo, the trade union conferderation which has 8 million government and private sector workers as its members. It is time for them to consider merging into a social democratic party.

Long-time one-party rule by the LDP has produced many negative aspects, including money scandals such a the Recruit and Lockheed affairs, and collusion among political, business and bureaucratic organizations. I this election, too, the LDP is reported to have conducte high-handed money campaigns with vast sums of contri butions collected from business circles. A power chang is the most effective way to put an end to this.

LDP rule has also brought about producer-oriente politics and administration at the expense of consumers creating an imbalance among the people, who remai relatively frugal in a giant economy. The people ar beginning to realize that such distortions cannot b rectified under LDP rule and are searching for a ne framework. This is one important issue which will b pursued throughout the 1990s. Many tasks await Prim Minister Toshiki Kaifu, who is now assured of a con tinued tenure. First, the dispute over the consumptio tax must be resolved, but fairly and squarely throug open debate instead of behind closed doors as in th past.

Although both the LDP and the opposition partie pledged opposition to rice liberalization, it is question able whether the international community will tolerat such an attitude. The Japan-U.S. structural talks ar resuming in Tokyo on Thursday, and bilateral economi disputes are flaring up this year when an off-year electio is to be held in the U.S. in Novemeber, Not only the LD but the opposition parties too should seriously addres the issue.

Political reform remains an important task for Die members, yet politicians are trying hard to find loop holes in the amended Political Fund Control Law. Th legal ceiling for election expenses has become a dea letter. Nothing has been done about the disparity in th value of each vote. The people must create a politica framework in which power changes become possible. A such, this period of instability is important for Japanes politics.

## LDP Faction Leaders Discuss Postelection Issues

*OW2602023090 Tokyo YOMIURI SHIMBUN in Japanese 21 Feb 90 Morning Edition p 1—FOR OFFICIAL USE ONLY*

[Report on YOMIURI SHIMBUN-sponsored program "Debate Among Influential Leaders," of the Libera Democratic Party (LDP)—former Prime Minister Yasuhiro Nakasone and Noboru Takeshita, former LD Secretary General Shintaro Abe, and former Financ Minister Kiichi Miyazawa—on 20 February at a Toky hotel; moderated by YOMIURI SHIMBUN Vice Presi dent and Editor in Chief Tsuneo Watanabe]

[Text] At a time when a political framework with whic to deal with domestic and external policy tasks is at issu in the wake of the House of Representatives election, YOMIURI SHIMBUN-sponsored "debate among influ ential leaders,"—with former Prime Ministers Nakason

and Takeshita, former LDP Secretary General Shintaro Abe, and former Finance Minister Kiichi Miyazawa as participants—was held at a Tokyo hotel on 20 February. In the two-hour-long debate, the four LDP leaders exchanged views on the political situation at home as well as on the international situation.

Takeshita drew attention to the establishment of a government-opposition consultative council on the tax system in the course of deliberations at the forthcoming special Diet session where, he said, it will be possible to draw a conclusion by October, including that on a second review of the consumption tax.

The content of the debate, which was moderated by YOMIURI SHIMBUN Vice President and Editor in Chief Tsuneo Watanabe, will be carried in the inaugural number of "THIS IS YOMIURI" (on sale 9 March).

Referring to the freeze of the consumption tax, cited as one of options by former Deputy Prime Minister (and Chairman of the Takeshita faction) Shin Kanemaru, Takeshita said, "The freeze being talked about in the LDP means to shelve deliberations on both bills—one which calls for a review and the other for abolition—and it does not mean to discontinue the implementation of the consumption tax during that time." Explaining about it in concrete terms, he said: 1) The government's bill calling for a review of the consumption tax and the opposition-proposed bill calling for its abolition are expected to be introduced to the special Diet session and the two sides will clash. Under these circumstances, it is proposed that Diet deliberations on both bills be shelved, a government-opposition consultative council on the tax system be established, and a conclusion be drawn by October; 2) on that occasion, it is proposed that the simplified taxation and tax-exemption point system under the current tax system be reviewed and, depending on the situation, property taxes be reexamined.

Recalling how tax reform bills were enacted at the extraordinary session in 1988, Takeshita said, "Although they opposed the bills, Komeito and the Democratic Socialist Party [DSP] consented to the revised bill, which called for a review in the future." He added, "We should start debating, keeping that fact in mind." He thus hinted that he looks forward to concessions from Komeito and the DSP. Takeshita's idea is to find a point of compromise between the government and opposition while keeping intact the framework of the consumption tax review plan worked out by the government and the LDP. This idea is expected to rise to the surface in future negotiations between the two sides as a means of breaking the deadlock.

Abe voiced strong opposition to the call for freezing the consumption tax in the form of suspending its implementation. He said: "The LDP is in no position to agree to a freeze or an abolition. If we do so, the meaning of the latest election will be lost."

Miyazawa, on the other hand, said: "The situation may get bogged down, with one side insisting its abolition and the other calling for its review. Then, I am afraid, both may find it unacceptable to keep the status quo. I think the issue will be settled at some time within the year."

Regarding the alliance-coalition issue, Nakasone, citing instances of West European countries for example, said: "As a democratic procedure, an alliance is agreeable; and so is cooperation from outside the cabinet, a partial coalition, or even a grand coalition, depending on the situation." He thus expressed the view that ways for cooperation between the government and opposition should be explored extensively from a medium-and long-range viewpoint. In conjunction with this, he expressed the view that, in its genuine sense, political reform calls on the LDP and all other parties to revise their platforms, which were formulated at the time of their founding, to suit the new age.

Takeshita forecast that the second Kaifu cabinet will be formed singlehandedly by the LDP as a tentative measure. Stressing the need to cope with the situation with even the possibility of an alliance or a coalition taken into consideration, he said: "After that [cabinet formation], we should be ready to go so far as to embrace whatever agreement we can reach with the opposition on foreign policy and other basic policies in the course of accumulating one partial agreement after another. But, I do not think a coalition will be possible at once."

### LDP To Face Difficulty in Passing Budget

*OW2702234390 Tokyo THE DAILY YOMIURI in English 25 Feb 90 p 1—FOR OFFICIAL USE ONLY*

["Economic Forum" column by YOMIURI SHIMBUN economic editor Yoshio Matsui: "LDP Faces Tough Scrap on Extra Budget"]

[Text] Now that the Liberal Democratic Party [LDP] has retained a comfortable majority in the House of Representatives as a result of a better-than-expected election performance, the party will certainly intensify its wooing of the moderate parties. This is because it still does not control the House of Councillors where the opposition gained the upper hand in last year's upper house election.

Despite the LDP's "victory" in the lower house election, any government-sponsored bill can be rejected in the upper house. The LDP thus needs to win the support of Komeito and the Democratic Socialist Party [DSP] to pass bills. But the two moderate parties are apparently hesitant to respond immediately to the LDP's solicitation because they are shocked by their defeats in the lower house election—so much so that they may retire into their own shell. It is therefore likely that the LDP's efforts to win the cooperation of Komeito and the DSP for either a full-scale or partial coalition will take some time.

The immediate difficulty is the passage of the fiscal 1989 supplementary budget. Unlike the annual regular budget, a supplementary budget has to be passed by both houses of the Diet. If the supplementary budget bill fails to pass the Diet before the end of March, the bill will die. If so, it will cause serious economic problems. First of all, it will become impossible to pay the March salaries of government employees. Salary payments to Diet employees due on March 5 are certain to be delayed. Most of these salaried workers presumably have some savings and therefore it is unlikely that they will fall into dire straits if their salaries should be delayed. But some of them may find it difficult to pay monthly installments on their housing and other loans. In this sense, a delay in salary payments becomes a question of fundamental human rights.

The implementation of the Y50 billion budget for the art and culture promotion fund, which was created at the strong urging of Prime Minister Tosh'ki Kaifu, and the Y430 billion budget for natural disaster relief will become impossible. This will affect business to some extent. The supplementary budget also covers Y600 billion for public works which are to be contracted during the current fiscal year with expenditures to follow in subsequent years. The public works covered by the supplementary budget are to be conducted in the "snow country" areas such as Hokkaido and the Tohoku region. If the supplementary budget fails to pass the Diet before the end of March, it will be too late to offer jobs after the snow melting season. If the contracts are delayed, it will become impossible to secure workers in this period of labor shortages. Many local workers may drift off to seek other work in the metropolitan and other urban areas if a budget problem brings a halt to steady work, even temporarily.

The budget appropriations for natural disaster rehabilitation works and public projects total Y1 trillion. If a budget of this size goes up in smoke, it will certainly have an adverse effect on business. Nevertheless, leaders of the opposition parties are still adamantly opposing the passage of the supplementary budget on the grounds that part of the revenue for the budget is derived from the consumption tax. The opposition parties are free to stand against the consumption tax. But they should do so only after the supplementary budget passes the Diet.

## * Abe's Chances To Become Prime Minister Assessed

*902B0067A Tokyo SEIKAI ORAI in Japanese No. 2, 24 Jan 90 pp 11-18—FOR OFFICIAL USE ONLY*

[Article by political commentator Tomo Yamaguchi]

[Text] With the appearance of the Kaifu administration, the wave of generational change has all of a sudden surged over the LDP [Liberal Democratic Party]. Will Shintaro Abe, a new leader who has been situated very close to the "seat of power," be swamped by this wave or can he yet stage a comeback?

"A setback for a prince who has been a stranger to setbacks"—does not such a description aptly fit today's Shintaro Abe?

Few persons in the wide world of politics have advanced more smoothly on the princely road than has Abe. Because of this, derogatory expressions such as "over-protected," "pure-bred," and "prince mellon" [a hot-house variety of mellon] have been applied to him. The only occasion on which Abe tasted the bitter cup of failure occurred in 1963 when he failed to win a seat in the general election to the House of Representatives for a third term.

Since then, however, Abe has successively served in many important posts, as chairman of the Diet Policy Committee, chief cabinet secretary, chairman of the Policy Board, minister of MITI [Ministry of International Trade and Industry] and Foreign Affairs, chairman of the Executive Board, and secretary general of the LDP.

There has been no other LDP head who has served in all three major party posts, minister of MITI and Foreign Affairs as well as the post of LDP secretary general. Among the other new leaders, Takeshita, Miyazawa, and Watanabe, Takeshita had been secretary general although he did not serve as chairman of the Executive Board or the Policy Board, nor was minister of MITI or Foreign Affairs: Miyazawa has been chairman of the Executive Board, but has not had the experience of serving in the posts of LDP secretary general, chairman of the Policy Board, or minister of MITI.

Among the three major party posts, Watanabe has served only as chairman of the Policy Board; he has not been minister of Foreign Affairs nor chief cabinet secretary. Glancing over these simple comparisons one can tell how Abe has run over his blessed course at top speed.

In an unusually smooth process, Abe has also inherited a faction. While Miyazawa has at the end also managed the peaceful takeover of a faction, in his case the process was strewn with hardships, partly due to squabbles with Masayoshi Ohira. Takeshita's case has on its part been the pits compared with Abe's "made in heaven" orbit.

Abe has been commonly acknowledged as a "candidate for the premiership," a prince, indeed, who has learned the princely way from his father-in-law Shinsuke Kishi as well as from Takeo Fukuda.

### Abe's Prospects Darkened by the Unexpected "Recruit Scandal"

In line with the saying that evil events make their appearance just when things seem to be going well, Abe's strategy for taking the helm of the state took a sudden turn into the darkness. To boot, Abe encountered as well the unexpected setback of a long-term hospitalization for removal of a stone in the bile duct (a theory still persists

that it was really pancreatic cancer). Especially for a politician, health concerns are a major negative factor.

Abe has recently displayed the scar on his belly from this operation to the reporters who follow him around to show off his progress toward recovery; however, Nagatacho [equivalent to Capitol Hill] does not hold too optimistic an opinion regarding his health.

The scar from the Recruit scandal will also not easily be written off even if Abe does successfully go through the "purification process" of the coming election.

The conditions that surround Abe today are grave ones that in one stroke have upset the smooth progress he had hitherto made.

A factor that has made Abe especially uneasy is the rise of the wave of generational shift which threatens to advance further at a rapid clip.

Abe probably had been quite complacent during the Uno administration. The birth of the Kaifu cabinet abruptly changed that situation. Abe and Kaifu are equals in terms of the number of times elected (10). In terms of age, however, Kaifu is seven years younger having been born in the Showa era. Those who hold the three major posts of the LDP, Secretary General Ozawa, Chairman of the Executive Board Karasawa, and Chairman of the Policy Board Mitsuzuka, all are Showa born. Is it then possible to push back a generational shift that has already taken place? This would not be an easy task.

If Prime Minister Kaifu were to remain in charge of the government until October 1991 through the full tenure of his LDP presidency the climate for the generational shift would be more firmly entrenched, thus rendering Abe's chances desperate.

Were the Kaifu administration to continue, Abe's chance for major party or governmental posts would diminish as well. It is obvious that Kaifu would refuse to appoint so-called new leaders to important posts, not only Abe but Miyazawa and Watanabe as well.

The task of staying the leader of a faction for two long years while remaining uncrowned is a very difficult one. Although the same problem will apply to Miyazawa and Watanabe as well, Abe must do battle with time in addition. The question here then amounts to the matter of the tenure of the Kaifu administration.

The first hurdle will be the general election to be held in February. It goes without saying that if the LDP loses its majority Kaifu will have to resign, willingly or not.

Here is a quick forecast of the election, based on "present conditions." In 28 electoral districts, the JSP [Japan Socialist Party] surely will gain seats while the LDP will lose. In seven districts, the JSP is likely to elect two, in addition to the present single seat. If this happens, the JSP will gain 35 on from the LDP.

Among opposition parties, the present Diet members of the Democratic Socialist Party (DSP) face new JSP candidates in nine districts: Similarly, Komeito Diet members compete with the JSP's new candidates in four districts, and JCP [Japan Communist Party] Diet members versus new JSP candidates in five districts. In all these districts, the JSP's new candidates appear to be in the lead.

In summary, the calculation goes this way: The JSP will gain 138 seats, 53 over the 85 winners of the last election: Komeito will have 52, four fewer from the last election's 56: DSP will have 17, 26 minus nine: JCP will have 21, 26 minus five. Komeito, with its preparation for the election at the most advanced stage among other parties, may fluctuate by a few from its basic prediction of 52. DSP and JCP, on the other hand, are likely to lose more than the number predicted as a result of successful campaigning by the LDP and other conservative unaffiliated candidates, in addition to the effort by JSP.

The LDP on its part will retain 271 seats, 35 fewer than the last election's 306, an ample number with which to preserve its majority. The delicate matter with the LDP lies with the 28 electoral districts where too many candidates are competing with each other. If conservative candidates unaffiliated with the LDP won half of these seats (14), the LDP will have 257 (271 minus 14), barely enough for a majority.

At present, LDP candidates include 272 Diet members and nine former Diet members. In addition, there are 64 new "factionally approved" candidates for whom the factions are seeking party recognition as well. Had the LDP authorize all of these candidates, the total would be 345. Adding to the LDP candidates are 94 conservative unaffiliated candidates: As many as 440 conservative candidates jostle in the field.

Secretary General Ozawa reportedly favors restricting the number of authorized candidates to 320 or so. If so, the possibility exists that the number of unaffiliated winners will increase from 14 to 20 or more. As a result, the LDP may not have a majority by its own candidates alone. In such a case, the LDP naturally will permit unaffiliated conservative winners to enter the party, thus preventing the loss of its majority.

Would it be Kaifu's responsibility if the LDP failed to win enough seats to make a majority on the basis of its own candidates alone?

Kaifu stated last September at a political roundtable conference in Vancouver on his way back from his official visit to the United States that "the line that divides victory from defeat will be 267 seats, just above the majority figure." It will by no means be easy to secure this number with authorized candidates alone.

Michio Watanabe has attempted to define "the 270's" as the number that separates victory from defeat: However, the prevailing view within the party is that this figure is too far out. According to Ozawa, the line lies in whether

one can make a majority or not. Thus, there exists at present no consensus within the party as to the number that will divide victory from defeat. Where these factors lie will determine the political dynamics of post-election politics.

**The Kaifu Administration Has Exhibited a Lack of Leadership**

Since its establishment the Kaifu administration has shown smooth progress right up to now when questions regarding its capacity for leadership have surfaced. The mass media reports a declining level of support for the cabinet. Showy performances alone may not be enough to maintain popularity.

It has become clear that Kaifu has not played any substantial role in resolving the problems of Diet dissolution or review of the consumption tax.

It has been the Takeshita/Kanemaru line that has made the decision regarding the timing of the dissolution of the Diet. Especially at that point has scarcely any consideration of Kaifu been apparent in the series of Kanemaru comments about "voting on 18 February" that determined the course of events.

The power to dissolve the Diet belongs exclusively to the office of the prime minister, its "inherited sword of power" so-to-speak. Nevertheless, Kaifu's inability to exercise that power was on public display.

Is this not too miserable even if the Kaifu cabinet was nominated by Takeshita and Kanemaru and allowed to exist under the protection of the Takeshita faction?

Kaifu on his part has shown his resistance to the date of "voting on 18 February" by stating that "I have not decided on anything": He has also attempted to press the Executive Office into "at least completing a revised budgetary plan."

The Executive Office's attitude, however, was to completely ignore Kaifu's intentions: "His attempt to first pass the revised budget and then dissolve the Diet is an indication that he does not understand workings of the Diet at all."

There even was a motion to dissolve the Diet as soon as it reopened without waiting to hear Kaifu's speech on administrative policy. No matter what a lightweight cabinet this one may be, it is rare to ignore to this extent the existence of a prime minister.

The story has been the same concerning the revision of the consumption tax. Kaifu reportedly was for exempting food from taxation at all stages. Kaifu emphasized "bold revisions" at discussion groups held at various locations, stressing consideration of the consumer.

Kanemaru, Ozawa and Mitsuzuka, reportedly are also inclined in this direction.

However, the outcome that rapidly evolved was "reduced rates," rather than total removal of taxation on food. Adding to the insult, it was only 2 days before the completion of the LDP bill that Kaifu heard of "reduced rates."

In the background of this shoddy treatment was a lack of communication between the prime minister's associates and the Ministry of Finance. Especially uncordial was the relationship between (Seizen) Kaneishi, the prime minister's chief secretary, and officials of the Ministry of Finance. The outcome was a failure to obtain sufficient information from that ministry.

It is undeniable that the prime minister's staff, including Chief Cabinet Secretary Moriyama and Assistant Cabinet Secretary Fujimoto, have shown inadequacy, as demonstrated by their inability to deal appropriately with the greatest political problem on hand, the revision of consumption tax.

On the other hand, it was also a fact that specialists on taxation within the LDP, at the level of vice chairman of the Tax Board, ignored Kaifu.

These two examples have thoroughly demonstrated the fragility of the Kaifu administration.

Another view that still exists concerning the prospects of the Kaifu cabinet is as follows: If in the coming general election the LDP retains its majority it will remain in office for another two years during the balance of Kaifu's tenure of the LDP presidency.

However, an LDP majority does not guarantee the stabilization of the political situation. In the House of Councillors, the reversal in the relative strengths of the party in power and the opposition parties will remain as it is. The present situation in which the budgetary plan might pass yet its related bills and other important bills would fail to become law become law would remain as it is.

Takeshita has proposed a "plan for a partial alliance" that suggests the possibility of cooperation and coalition with the DSP and Komeito. The only means left for the LDP to overcome the reversal of strength in the House of Councillors will be a coalition with Komeito, or an alliance with both Komeito and the DSP.

Whatever their real intentions might be, neither Komeito nor the DSP can easily ally with the LDP after a general election in which they jointly pledged the "abolition of the consumption tax."

Yet another problem, negotiations for removal of structural impediments in the economy are also due to begin in earnest after the election. U.S. demands have shown no sign of diminution and may only escalate. The negotiations addressed to structural impediments after all reflect the problem of friction between U.S. and Japanese industry. The industries in question maintain certain close relations in complicated ways with the political and bureaucratic worlds. The situation does not

amount to as simple a matter as its characterization by Shintaro Ishihara in terms of Japan-bashing in the United States motivated by racial prejudice.

An especially close relationship exists between each industry and the "Zoku Diet members" [groups in the Diet who exercise in a particular field policy making expertise]: In a way these "Zoku" Diet members represent the interests of particular industries.

Zoku Diet members have enjoyed largess from the industries concerned in the form of funds and support in electoral campaigns. One side of the story is that the Takeshita faction controls important members of the commerce and industry "Zoku" and of the construction "Zoku" as well.

Since the time of the Nakasone administration cabinets have utilized so-called "external pressures" from the United States to gain control over domestic policy.

Kaifu on his part probably would also resort to similar techniques to deal with the problem: However, unless he mobilizes powerful leadership the situation will see no progress.

The inadequacy of Kaifu's leadership was inadvertently exposed in connection with the problems that surrounded the dissolution of the Diet and the revision of the consumption tax. Another such case was evident in the matter of the taxation of urban agricultural land at the same rate as residential land. This task has been left substantially untouched except in the case of land in the 23 wards of Tokyo. Not only did Kaifu fail to display leadership in dealing with these problems, but even an exposition of his ideas concerning them was not to be heard.

Kaifu has been presenting his "performance" in ways even better than those of Nakasone: Examples include his emphasis on his relative youth by a taking a test of physical strength at the National Stadium on 10 October, Physical Fitness Day, and the holding of dialogues at supermarkets about the consumption tax. The overall impression, however, is that now is the end of the story for a Kaifu who has never displayed leadership as prime minister.

**The Opinions of Takeshita and Kanemaru Are To Decide Kaifu's Fate**

An analysis of the political milieu that surrounds the Kaifu administration reveals the hard fact that even if the LDP manages to maintain its majority in the coming election, it is hardly likely that the Kaifu administration will survive unscathed over almost two more years.

The political situation for the next few years will inevitably be in flux. Changes occurring in Eastern European nations will naturally affect Japan. There actually has been an argument raised in the U.S. Congress that claims that the "U.S.-Japan Security Pact" is now useless.

It is highly doubtful if Kaifu, who claims to be "diplomacy deaf," can generate effective leadership at this time of international turmoil.

There exists the precedent of Takeo Miki, Kaifu's mentor, who demonstrated the power of the chair of the premiership by refusing to step down despite intense efforts to unseat him. Unless aided by a massive defeat in a general election, it must indeed be a most difficult matter to drive a prime minister into resigning.

However, it is too optimistic an assumption that Kaifu would be able to persist as did Miki. Even when Kaifu's position was slighted in the course of the decisions concerning the dissolution of the Diet and the revision of the consumption tax, Kaifu failed to manifest much resistance. Kaifu assumed this acquiescent attitude because of the consideration of avoiding antagonizing Takeshita and Kanemaru, the obvious outcome had he attempted to push through his own agenda. This act of not carrying through his wishes almost takes on an appearance of resignation and adoption of Miki as an example not to follow.

In short, the fate of the Kaifu administration lies in the hands of Takeshita and Kanemaru.

On the other hand, the Takeshita/Kanemaru alliance at present is not the monolith that it used to be. Since Takeshita's decision to choose Uno as the successor to the post of party presidency in a rather highhanded manner, a rift has arisen between him and Kanemaru. The selection of Kaifu strongly reflected Kanemaru's opinions as did the placement of Ozawa as party secretary general.

In regard to the revision of the consumption tax, Takeshita and Kanemaru opposed each other to the very end. While Takeshita has persisted in continuing the consumption tax, Kanemaru has even argued to freeze it. Later Kanemaru relented somewhat but insisted on a drastic revision.

The behavior of Seiroku Kajiyama has symbolized the degree of antagonism between Takeshita and Kanemaru. Kajiyama at first had been recommended to become chairman of the LDP's Taxation System Investigation Committee. However, upon learning the antagonism between the two senior politicians, Kajiyama positively declined to assume the chair. Kajiyama, who instead became a vice chairman of the committee, did not even attend committee meetings while the consumption tax was under discussion. The depth of the rift is well illustrated by this example.

It is unlikely, nevertheless, that the antagonistic relationship between the two will continue: Kanemaru is a past master of compromise. Takeshita also has much to lose were the antagonism to last for long. Where it counts Takeshita and Kanemaru are certain to join hands.

Contemplating the political situation in the post-Kaifu era, the closest person to both Takeshita and Kanemaru is Abe. Probably no person would deny this point.

**The Abe Faction Aims at Expanding Its Sphere of Influence Through the General Election**

Abe is posed to pitch with all his might in the coming general election. Abe has been running around the country on behalf of candidates from his faction. Among the Diet members who are candidates for the House of Representatives, 56 belong to the Abe faction, 70, to the Takeshita faction, and 60 each, to the Miyazawa and ex-Nakasone factions. Numerically speaking, the Abe faction is at present only the fourth largest. Abe would like it to become at least the second largest one, even if his faction could not surpass Takeshita's. The Abe faction has authorized 24 new candidates in this election on a par with the Takeshita faction in numbers.

The situation does not warrant optimism, other factions are also waging a fierce campaign to have their own candidates win. Maximum efforts by every faction may coalesce into the LDP putting up a good fight.

Apart from the election, another project about which Abe has shown great eagerness is a visit to Moscow. Through an interview with Chairman Gorbachev, Abe proposes to enhance his visibility.

According to its initial schedule, this visit was to coincide with Kaifu's to the Eastern European nations. Recently, however, the possibility has arisen that the visit to Moscow may take place after the election. One view ascribed this delay to intervention by the Ministry of Foreign Affairs, but later opinion has it that the delay appears be based on a wish by the Soviet side. If Abe's visit were to coincide with Kaifu's to Eastern Europe, an Abe-Gorbachev interview would certainly be the more newsworthy item and would attract more attention. Were Kaifu to be eclipsed, the Ministry of Foreign Affairs would lose ground.

In the Soviet Union, the Central Committee plans to hold an emergency meeting in January. Judging by the delicate situation that surrounds him today, Gorbachev's schedule must be quite tight. Taking this into consideration, the postponement of Abe's Moscow visit appears more likely to have been determined by circumstances in the Soviet Union.

At any rate, the best strategy for Abe is to generate an impression of "Abe, the veteran of diplomacy" thus emphasizing the difference between himself and Kaifu and advertising his preeminence in a post-Kaifu era.

Ironic as it may be, Abe's rival Miyazawa has also advertised his diplomatic expertise through his meeting with President Bush in the United States.

Both Abe and Miyazawa are competing in the arena of diplomacy. This strategy for generating personal appeal, an attempt to stress Kaifu's weak points, reflects the growing importance of Japan's role in an international environment that has turned fluid.

Will new leaders, Abe at the top of the list, have a chance to take the helm of political leadership in the near future?

As described above, the Kaifu administration faces a mountain of problems and many hurdles even if it fights the election successfully. Given Kaifu's limited talents, it is by no means certain that he will clear these hurdles.

Both Takeshita and Kanemaru hold the key. Particularly notable are Takeshita's recent forward moves that have had him speak out openly in a manner contrasting with his post-Recruit reticence.

At the time of his retreat, Takeshita placed Uno and Kaifu in the seat of power, "politicians who so-to-speak are going nowhere." These two then became LDP president, upsetting Nagatacho's commonsense expectations and general predictions.

The important point here is why Takeshita settled on them. Both Uno and Kaifu have served 10 terms, the same number as Abe. The consensus was these selections were made out of consideration for Abe. Such considerations could indeed have played a role.

Was that all there was to it? The truth is that the predominant motive was Takeshita's own "self-protection."

**The Takeshita Era Is Likely To Continue for a Long Time**

Takeshita formed his own faction by rebelling against Kakuei Tanaka. Although Takeshita, in this way, attained his ambition of commanding the political world, he was forced into an unwilling resignation by his involvement in the Recruit scandal. Taking the case of investments made at the time of the faction formation alone, his commitment has not paid off as yet. Takeshita thus has plenty of reasons to wish to control the political world for a long time to come.

The selection of Uno and Kaifu has been a painstaking ploy to thwart the generational shift.

Takeshita has actually expressed his concern as follows: "Should the new leaders' chances for power come to an end after me...."

While it is not certain whether Takeshita has taken even Miyazawa or Watanabe into his consideration, Abe at least has been in his thoughts.

How were matters handled in the period of Miki/Kakuei/Ohira/Fukuda/Nakasone leadership? These leaders also completely supressed new aspirants. When a generational shift does take place, the older generation will lose its political influence all at once.

Thus, after all, the intent behind Takeshita's selection of Uno and Kaifu was to have them serve as a barrier to the wave of generational change.

The evidence that confirms this motive of Takeshita's is to be found in his refusal to become an elder statesman of the party, but to remain on "active duty." Of course this should occasion no surprise once one knows that Takeshita's intent was to make a come back when circumstances permitted. Even if such a possibility were slim, it would be imperative to retain the necessary conditions.

This intent on the part of Takeshita is convenient for Abe. Abe relies entirely on a Takeshita intent to block generational change.

The personal long-standing friendliness between Takeshita and Abe has not changed a bit. In this sense also the fulfillment of Abe's ambition to preside over the political scene stands a good chance.

Kaifu, however, is also faithful to Takeshita. It is a well known fact that Kaifu gets in touch with Takeshita at every juncture. As it is, the Kaifu administration suits Takeshita fine; in a sense, it is one easier to control than any future Abe administration.

There is one obstacle, and this is Kanemaru's plan for the future. He wishes to promote generational change, and this is evident in the fact that he placed Ozawa in the post of LDP secretary general in the face of a lukewarm attitude on the part of Takeshita.

As the president of the Takeshita faction, in a role that he himself calls that of a "hired madam," Kanemaru does not necessarily insist on maintaining the faction.

Kanemaru's selection of Ozawa as the party general secretary may indicate his intent to nominate Ozawa as the successor to Takeshita. Further, there even exists a view that Kanemaru may immediately recommend Ozawa after Kaifu's departure.

Ozawa, as well as Mitsuzuka, are emphasizing their view that "if the LDP loses its majority in the general election, the party should hand over political power to the opposition parties."

The statement above appears to be a double-edged sword: to restrain the opposition parties and to strike down the LDP's leaders. Ozawa and Mitsuzuka agree on the creation of "an era of our own" and hope to advance generational change at one stroke. With Kanemaru joining forces, this movement would generate considerable force.

However, such a scenario may not unfold as designed. To begin with, it is no easy task to change over the Takeshita faction into an Ozawa faction. Were Ozawa about to become the successor, the Takeshita faction might split. Takeshita would attempt by all means to prevent such a split.

The relationship between Hashimoto and Ozawa, which has been described as fighting like cats and dogs, has recently appeared to be improving. If an agreement were reached to the effect that Hashimoto, who is senior in age as well as number of times elected, would become prime minister ahead of Ozawa, the flow of events would change. There is ample room for such a possibility.

If this scenario were to become reality, Takeshita would practically be kicked upstairs. Resumption of political power aside, Takeshita would like to remain a political don for another five or six years. It is unlikely that a Takeshita who has gone through the hardship of being forced to "mop the floor" under Tanaka would withdraw into retirement without resistance.

One advantage for Abe is Ozawa's relative youth. In this time of turbulence, the probability of Ozawa daring to move toward the assumption of political leadership is slim. An Abe administration, of course, will not be realized without the support of the Takeshita faction. Abe's strategy hinges upon this point.

Usually after a general election no national election will be scheduled for some time. The greatest hurdle will have been cleared by retaining the majority. This time, however, a possibility has arisen of a dissolution of the Diet followed by another general election for the second time in the same year.

Takeshita's idea of "a partial alliance" has something to do with this possibility. In order to solve the problem of the reversal of the majority in the House of Councillors, a situation has to be created in which an alliance and cooperation with Komeito, or with Komeito and the DSP, may come into consideration.

The focus will be on the treatment of the "consumption tax." Would Kaifu consent to a second dissolution of the Diet in the same year, one that might unseat the Kaifu administration?

For Takeshita, the Kaifu administration is so-to-speak a "disposable administration." If the election meant the end of the Kaifu administration he would end up having no value politically. When that happens, the chance will come for an Abe administration to soar. Abe's chances for commanding the world of politics are not entirely nil, however steep the way to the pinnacle might be.

## Ozawa Views Collaboration With Komeito, DSP

*OW2802001090 Tokyo MAINICHI DAILY NEWS in English 25 Feb 90 p 1—FOR OFFICIAL USE ONLY*

[Text] The ruling Liberal-Democratic Party (LDP) will have to forge an agreement on basic policy issues with two of the middle-of-the-road opposition parties, the Komeito and the Democratic Socialist Party (DSP), by the end of April, LDP Secretary General Ichiro Ozawa told the MAINICHI SHIMBUN. Ozawa's statement, the first time a high-ranking LDP official has put forth a

concrete plan of working with the opposition, reflects a skewed political situation in which the LDP controls the House of Representatives, but must contend with an opposition-dominated House of Councilors.

According to Ozawa, "a new political framework" should be created, and the LDP will consult with the Komeito and the DSP on the consumption tax in the budget deliberations in the special session of the Diet, which convenes Tuesday. The LDP will also work with the two opposition parties throughout April to come to agreements on basic policy issues such as foreign policy, security, the tax system and welfare by the end of the month, according to Ozawa.

In the interview, Ozawa hinted that after the second Cabinet of Prime Minister Toshiki Kaifu is formed, the LDP will try to find ways to form a coalition government with the Komeito and the DSP in order to ensure a "stable administration" in the future. While the policy agreements would be made outside the cabinet, the process could be seen as a first step towards a coalition, Ozawa said.

"Because this situation (LDP-dominated lower house and opposition dominated upper house) will continue for more than a decade, we cannot deal with it individually," Ozawa said in the interview. "It's important that we coordinate our basic policy with the opposition and create a political framework."

The ruling party locked horns with the opposition last year over the controversial consumption tax, resulting in divergence of opinions that put an end to deliberations on the 1989 supplementary budget and the budget for fiscal 1990. The LDP will search for a means of cooperation with the opposition in order to break the stalemate, Ozawa said.

According to Ozawa: "If the disorder in the Diet is not brought under control during April, nothing can be done about basic issues such as foreign policy, security, energy, the tax system, welfare and agriculture." It is likely that agreements on such policies would come about by making proposals outside cabinet meetings.

"There may be something like a coalition or political restructuring in the future," Ozawa said.

Explaining why there was a greater possibility the LDP would work with the Komeito and the DSP rather than the No. 1 opposition party, the Japan Socialist Party (JSP), Ozawa said: "Fundamentally, the Komeito and the DSP simply are not compatible with the JSP. The JSP will not let go of its views on things like the U.S.-Japan Security Treaty and self-defense force." Thus, the Komeito and the DSP, which as middle-of-the-road parties hold views ideologically closer to those of the LDP, would be the most likely partners in a coalition.

Although former Prime Minister Toshiki Kaifu had mentioned a "partial coalition" and Shin Kanemaru, the head of the LDP's Takeshita faction, proposed a "major coalition" infolving the JSP, the Komeito and the DSP, Ozawa is the first LDP leader to provide specifics on the process of creating a coalition.

But, both the Komeito and the DSP have just finished campaigning on the "anti-consumption tax and anti-LDP' platforms in the recent general election, and political observers say it would be "suicidal behavior" for them to form a coalition with the LDP.

Ozawa may be hoping that his positive stance towards a coalition with those two parties can begin to break the ice.

### Watanabe Joins Race for LDP Presidency

*OW0103061590 Tokyo ASAHI EVENING NEWS in English 27 Feb 90 p 6—FOR OFFICIAL USE ONLY*

["Political Spectrum" column article: "Watanabe Joins the Post-Kaifu Race"]

[Text] Michio Watanabe has long been an aspirant for the presidency of the ruling Liberal-Democratic Party [LDP], but it was not until last week that he formally entered the race to succeed Prime Minister Toshiki Kaifu, who is also leader of the party. He acquired the power base for contesting the coveted post by inheriting former Prime Minister Yasuhiro Nakasone's faction. After narrowly keeping his seat in the Feb. 18 Lower House election, Nakasone agreed last Wednesday to turn over the factional baton to Watanabe. Watanabe, acting chairman of the Nakasone faction, was installed as leader of the group later in the day. The faction thus became the Watanabe group.

Nakasone's influence in political circles had declined because of his involvement in the Recruit stocks-for-favors scandal. Moreover, his faction, the fourth largest within the LDP but trailing the larger groups by a small margin, suffered a beating in the latest Diet election, losing 12 seats. These circumstances apparently led Nakasone to conclude that the time had come for him to give up his factional control.

In the first interviews he gave to the media as a factional chief last Friday, Watanabe said he would run in the presidential race to be held when Kaifu's term expired on Oct. 30 next year if he thought he was likely to win. "I wouldn't wage a losing battle," he said. "Gaining the party presidency has been my target for the past several years," he added.

The Watanabe faction consists of 67 Diet members, including two legislators who joined the group last Thursday. The newcomers had been members of Watanabe's suprafactional policy study group, Onchi-kai. He intends to bring in more factionally unaffiliated members of Onchi-kai. The 67 membership compares with

103 for former Prime Minister Noboru Takeshita's faction, 86 for former LDP Secretary-General Shintaro Abe's group, and 82 for former Finance Minister Kiichi Miyazawa's faction.

Though numerically inferior to Abe and Miyazawa, Watanabe, former chairman of the LDP Policy Board, exudes the vitality neither of his post-Kaifu rivals has. Unlike Abe and Miyazawa, Watanabe has not previously run in a presidential election. This is viewed as a drawback. Moreover, he must first attend to the task of consolidating support within his faction. Some members of the group had raised objections to his succession to Nakasone as factional chief.

Under these circumstances, many LDP lawmakers think that Watanabe's real target is to win power after Kaifu's successor steps down. In their views, Watanabe will help Abe, the likeliest successor to Kaifu, gain the party presidency, while exploring a possible alliance with the Takeshita faction. By helping Abe, Watanabe will be able to expect assistance from him in return.

Endorsing the speculation is the fact that Toshio Yamaguchi, the new secretary-general of the Watanabe group, openly says he will make efforts to help Abe rise to the top. Yamaguchi has had close ties with Abe since he was secretary-general of the defunct New Liberal Club, a small conservative party. Abe is the likeliest successor to Kaifu because he can expect support from the Takeshita faction, the largest intraparty group, based on his personal friendship with Takeshita. Watanabe's help will make that prospect even more secure.

Still, the way ahead is tough not only for Abe but also for Miyazawa and Watanabe. They do not have much time left because much younger leaders, such as LDP Secretary-General Ichiro Ozawa and Finance Minister Ryutaro Hashimoto, are fast gaining clout. Furthermore, the taints from their involvement in the Recruit affair linger with them.

As acting chairman of the Nakasone faction, Watanabe virtually directed the group's campaign for the Lower House election on behalf of former Foreign Minister Yoshio Sakurauchi, its nominal chief. Borrowing Y1 billion from banks, he extended financial assistance to all the candidates fielded by the group, although the faction lost 12 seats, the Onchi-kai policy study group retained its pre-election strength of 30 seats.

Several factors worked in favor of Watanabe's factional succession. First, the election sharply reduced the Diet members who had formed the core of the Nakasone faction. Former Justice Minister Osamu Inaba, who had been carrying out political activities with Nakasone since shortly after the end of World War II, retired. Other factional elders, Sadanori Yamanaka and Kosei Amano, and Yamanaka-aligned incumbents, who had not necessarily supported Watanabe, lost their seats. "With these men gone, the mood mounted that there is no choice but to rally around Mr. Watanabe," says Motoharu Morishita, the group's former secretary-general.

Nakasone had made much of Sosuke Uno, who briefly served as prime miniser last year, and of former Chief Cabinet Secretary Takao Fujinami to balance off Watanabe's growing influence within his faction. But Uno is his own man, and Fujinami is on trial for his role in the Recruit scandal. It was a Fujinami loyalist who urged Watanabe's chief at a general meeting of the group last Thursday.

### * Kanemaru's 'Shocking' Political Plans Revealed

*WA2702085890—FOR OFFICIAL USE ONLY*

[Editorial Report] The 24 February Tokyo weekly SHUKAN GENDAI in Japanese, pages 46-48, carried an unattributed article detailing the "shocking secret plans" of Shin Kanemaru, a top Liberal Democratic Party [LDP] official and a leader of the Takeshita faction, after the February Diet elections. The article asserted Kanemaru is planning the following: 1) Former Komeito Chairman Junya Yano will be designated minister of justice to counter the problems arising from the LDP's minority status in the upper house; 2) A new "Kanemaru party" will be organized and will include members from the JSP's right wing; and 3) An "Abe administration" will be inaugurated in May, but it will only act as "short relief" until November.

According to the article, an LDP Komoto faction member close to Prime Minister Kaifu said in despair: "The LDP leaders consider 'Prime Minister Kaifu' as merely a tool to win the election. They have begun efforts to ease him from power as soon as the election is over. Mr. Takeshita told a Hirakawa Club reporter who reports on LDP activities: 'I wrote the scenario for the Kaifu to visit Europe.' Meanwhile, Mr. Abe said: 'If I become prime minister, I will let Ozawa handle things.' Not only is there a secret Abe-Takeshita agreement, there is also a secret Abe-Ozawa agreement. Not only that, but Mutsuki Kato said 'we will let Abe attend the July summit.'"

Concerning Kanemaru's plans, the article quoted a Takeshita faction core member as saying: "Kanemaru is preparing to form a coalition cabinet, naming former Komeito Chairman Junya Yano as justice minister. This is because Yano has good connections with Takeshita and is not close to Taisaku Ikeda, the honorary chairman of Sokagakkai. By using Takeshita's partial coalition plan, Kanemaru aims to befriend Komeito to realize his bold political reconstruction plan."

Hirotada Asakawa, a political commentator, supported the above statements. "Kanemaru wants to reconstruct the political world, and is prepared to hand Komeito a seat in the cabinet to win over some of the opposition in the upper house."

According to the article, Hisashi Kikuchi, another political commentator, predicted: "If the coalition plan fails, the second Kaifu cabinet will not last past May. The 1990 budget and related bills which are expected to pass the lower house around 10 April will likely be vetoed in

the upper house. As a result, the opposition will ask for Kaifu's resignation in exchange for passing the budget and related bills. Abe will then replace Kaifu according to an Abe-Takeshita agreement. This is common knowledge in Nagatacho." Kikuchi added: "After the election, Kanemaru will visit North Korea to pave the way for a Kim Il-song-Kaifu meeting so as to provide Kaifu his last political performance before he is persuaded to retire. In any case, Abe will be able to attend the July summit, according to the Abe-Takeshita agreement."

As for the post-Abe political situation, the above-mentioned Takeshita faction core member said: "Abe will only be a one-point relief [English words used] prime minister. Because he is still a convalescent, after he presides over the two significant imperial events in November—the Diet's 100th anniversary and the emperor's coronation—he will resign for 'health reasons.' Perhaps Kanemaru wants Takeshita, who has been a minister without portfolio, to regain power."

Therefore, Kanemaru's plot for this year permits Abe and Takeshita to become prime ministers following Kaifu. This, the article predicted, will lead to LDP Secretary General Ozawa's turn in the near future. This portion of Kanemaru's political scheme only concerns the "prime ministership and the cabinet." Kanemaru is said to have further plans to form a new "Kanemaru party," the article said.

According to Kikuchi, "The LDP is confident of obtaining a majority in the lower house. However, there is the problem of the upper house, where the LDP does not have a majority. Kanemaru, therefore, wants to win over all the opposition parties, except the Communist Party, as soon as the election is over. Kanemaru is contemplating a South Korean-type political reconstruction. He has met with Makoto Tanabe, the former JSP chairman, more than 10 times at his office in Nagatacho and has persuaded Tanabe to leave the left-wing Socialists and to join with Kanemaru. Tanabe is said to be proposing the idea of a 'social democratic party' in response to Kanemaru's persuasion."

However, Masaya Ito, another political critic, has a slightly different view: "I think Kanemaru originally planned to counter the situation in case the LDP fails to win a majority in the lower house election. Even if the opposition parties win, they will not be able to gain a majority without the Communist Party. Political power will be adrift under these conditions. Kanemaru plans to stabilize political power by forming a new party with the right-wing socialists, with whom the LDP can generally agree in policies."

Regarding the consumption tax, political critics Ito and Asakawa both say: "Simply put, it can be frozen for the next two years, and only Kanemaru can achieve such a big task."

If Kanemaru's plans work out, Japan's political map will show drastic changes after the election, the article asserted. Such changes may plunge Japan into turmoil similar to what has happened in Eastern Europe, the Soviet Union, and Korea.

Disputing this view, an unnamed LDP Dietman asserted: "Everyone knows Abe will replace Kaifu in May. Abe will lead us to a double election in two years, which will result in victories by a large margin in both houses. We don't need to over exert ourselves to reconstruct our political world."

In any case, the article concluded, popular judgement in the election will be the starting point in determining which way the political situation will go and when Kanemaru's "large-scale political reconstruction" will begin.

### * Doi, Fuwa Comment on Differences in Socialism

*WA1202085490 Tokyo AERA in Japanese 6 Feb 90 p 13—FOR OFFICIAL USE ONLY*

[Comments by Takako Doi, Japan Socialist Party, JSP, chairman, and Tetsuzo Fuwa, Japan Communist Party, JCP, chairman, on the topic "Differences in Socialism Between Japan and Eastern Europe"; interviewer not identified and date and place not given]

[Text] **JSP Chairman Doi on the "East bloc upheaval"**

The Liberal Democratic Party [LDP] contends that the general election is a "choice between systems." You must not mistake our socialism for East European socialism. The problem the East bloc is facing today is its single-party dictatorships, which deprived its peoples of their freedoms and rights. If we question our system here in Japan, the problem is the LDP's single-party control over the past 40 years.

When I talked to the women leaders of the democracy movements in the East bloc, they said that their economies are still in deep trouble. However, they can now cope with high inflation 20 times the previous rate and long periods of waiting in line for food. What will eventually overcome difficulties, the peoples' spirit or money? We may be asking the same question here in Japan.

**Doi on Marxism**

This is not the time to judge whether Marxism is good or bad. When the book *Das Capital* was written, the social environment was entirely different than now. However, its underlying respect for humanity and its ideas of fairness and equality played important roles in history. The open competition of capitalism is linked to the law of the jungle and can harm fairness and equality. Capitalist society had to create laws, such as the Antimonopoly Act, for its survival.

**Doi on "choice of words"**

If the term "socialism" gives people the impression that it is different from democracy, or even is against it, then

this is wrong. We value democracy like no one else. Therefore, if we want to be particular about what we are called, perhaps "social democracy" would be more accurate.

**On renaming the party**

The term "socialist party" is deeply rooted in Europe. But it has a different connotation on the American Continent. Quite often people are prejudiced against it. Therefore, the name of a party can be important. However, we should first work on our daily activities to change the state of things in our party, and then we can take care of our party name later.

**On the "Socialist Association" [Shakaishugi Kyokai]**

Not all members of the JSP hold the same convictions, and there are many members who have different ideas. Although there may be criticism directed against these individuals, criticizing our party because of those individuals is not right.

**JCP Chairman Fuwa on East bloc upheaval**

The peoples of the East bloc nations had been oppressed under the defective socialist system of the Soviet Union. They want to escape from Soviet guns, and are striving to be independent. Some people in the world have the misunderstanding that socialism means what the Soviets and Chinese believe in. Well, what is failing is Soviet-style socialism, particularly that begun by Stalin which upheld the party's monopoly.

**Fuwa on Gorbachev**

One of the major defects of the Soviet type of socialism is its desire for great power and hegemonism. They have yet to reflect on this grave defect. The problem of the Kuriles is related to this.

Moreover, the Soviets will close their eyes to the evils of the capitalist world if it is to their advantage. They regard Japan and the United States as merely hi-tech countries and disregard Japanese and American oppression and exploitation. In Soviet relations with the United States, Gorbachev has weakened its line of the total abolition of nuclear weapons.

**On "choice of words"**

At a mass meeting in 1976, we decided to abolish the term Marxism-Leninism. We were afraid that people might adhere strictly to the words rather than to basic ideas. History moves on, and even Marx and Lenin cannot rise above the limitations of time.

**On the "faultless vanguard party"**

Is there any problem in characterizing ourselves as members of the "vanguard party"? It would become a problem if we asked for a special constitutional status and forced the people to comply, such as in the cases of the Soviet Union and the East bloc nations. Nothing is perfect. It is a misunderstanding that we advocate perfection. If we find any mistake, we move to correct it immediately. There was an accepted opinion that the United States instigated the Korean war, but we rectified it.

**On the "Socialist Association"**

This is the group that imported Soviet-type socialism to Japan and is much like the parties that have failed in Eastern Europe. The Socialist Party is unfortunate, because its so-called left-wing members place Soviet and Chinese-style socialism on a pedestal.

In 1976, we recognized multiple political parties and a change of power in our "Declaration on Freedom and Democracy." For the future, we aim for the nationalization of basic industries, but we will value the privatization of agriculture and smaller businesses, or cooperatives, depending on conditions. Nothing will be compulsory, however.

## JCP Issues Statement on Election Outcome

*OW2202005990 Tokyo JPS in English 0850 GMT 20 Feb 90—FOR OFFICIAL USE ONLY*

[Text] Tokyo Feb 20 JPS—The Standing Presidium of the Central Committee of the Japanese Communist Party [JCP] issued a statement on February 19 on the results of the general election. Following is the full text of the statement:

1. Although the Japanese Communist Party appealed for an advance of the JCP to reduce the Liberal Democratic Party [LDP] to a minority, the general election resulted in a decrease of JCP seats and the Liberal Democratic Party maintaining a majority of seats, though with a sizable reduction compared to its previous seats which were got with a deceptive public promise. To check any advance by the JCP, the LDP and the other anti-Communist parties focused an intense attack on the JCP, using a wide variety of means. It is clear that the anti-Communist attacks of the Komei and the Democratic Socialist Parties [DSP] reinforced the LDP's aim of containing the JCP.

The decline in LDP seats is a sharp reflection of the people's desire for politics of fairness and democracy, and their great anger at the LDP maneuver to fix the system of the consumption tax with a deceptive "review". And their opposition to money-power politics typically seen in the LDP's request for donations of 30 billion yen from business circles, and their destruction of agriculture surrendering to U.S. pressure. This is also reflected in the loss of votes and failure of some of the candidates tainted with the Recruit scandal plus the failure of the candidate who was responsible for promoting the introduction of the consumption tax. The people's resentment of LDP politics found expression in the advance of the Japan Socialist Party, the first opposition party. But it should be noted that the insistence of the JSP, Komei and the DSP to exclude the JCP, and

their failure to propose a perspective for government to replace the LDP is partly responsible for the LDP maintaining its majority.

2. Although the Japanese Communist Party restored its seats in the Nagano No. 3 constituency and Fukuoka No. 2 and No. 4 constituencies, it won only 16 seats, losing 14 incumbent seats. It is very regrettable that we could not succeed in returning our party's excellent candidates. We are determined to make stronger efforts to reestablish ourselves in the next general election.

We fought the election campaign with the correct platform calling for establishing a temporary coalition government based on the maximum unity of all forces which agreed on the national tasks of abolition of the consumption tax, elimination of money-power politics and the prevention of the liberalization of rice imports. In the light of the need to implement these three tasks and any other issue the consistency and foresightedness of our party is objectively clear, but the election campaign was not one in which the parties fully debated the problems in front of the electorate in competing for support.

Although there was a tendency, carried over from the House of Councilors elections, for support to be concentrated on the Socialist Party, the biggest problem which hindered our party in making an advance were the events in Eastern Europe. In defiance of unwarranted interference, the JCP has continually and firmly criticized the Stalin-Brezhnev-style of great-power chauvinism and hegemonism, and the extreme distortions of socialism which lacked democracy. Therefore recent events in Eastern Europe should basically lead to increased confidence in the JCP and heighten its prestige. But in spite of our efforts, using propaganda and persuasion to elucidate the problem, we could not succeed in sweeping away the misunderstandings which the electorate had.

3. The argument of the "collapse" of communism and socialism began to be taken up by the mass media on an extensive scale just after the Tiananmen incident. The developments in Eastern Europe following this have been reported day after day as the "collapse" of the socialist system. These developments, in which the people of the Eastern European countries have started to build their own countries, rejecting the impositions of the Stalin- and the Brezhnev-type, although accompanied by various confusions, trial and error, have proved the standpoint of scientific socialism that the people are the main force for making history. But there were no such views included in the flood of reports on television and in the newspapers which continued for nearly eight months. On the contrary, the events were reported as "the collapse of Communist parties" and that many ruling parties in Eastern European countries had to change their name and organization because their errors in blindly following the Stalin-Brezhnev-type policy and approach had been too great and serious.

In spite of this, the JCP got 5.2 million votes which are attributed to the earnest efforts of our candidates, our party members, and members of supporters associations, those who support a democratic future for Japan, and the voters who made rational judgments in response to our efforts. The Standing Presidium of the JCP expresses its heartfelt thanks.

4. The theory of scientific socialism has become firmly developed and has stood the test of time of one and a half centuries. This has been proved by the practice of our party before, during and after the war. In Eastern Europe, the idea of a unified neutral Germany with secession from military blocs and the proposal for the withdrawal of Soviet troops, all conducive to world progress, are being raised by those who are searching for the rebirth of their countries. We are convinced that this indicates the revival of socialism. The contradictions of the Japan-U.S. military alliance have become all the more apparent. The above-mentioned moves show that the abolition of all military blocs, which has been a persistent aim of the Japanese Communist Party, is now becoming a world prevailing trend. With activities of our party from now on, this just stand of the party will be understood by the people without fail.

The LDP has obtained a stable majority in the House of Representatives. But it is certain that the political situation after the election will be turbulent with the LDP having lost its majority in the House of Councilors. It is obvious that each opposition party is sharply confronted with the question as to whether it will choose a coalition centered on the LDP or a coalition proposed by the JCP for the achievement of urgent tasks for the people, such as the abolition of the consumption tax. Whether to liquidate the political structure of the 1980s, which helped LDP politics by "excluding the JCP", or to keep the structure and prolong LDP politics? From this time on this begins to be the focal question. So long as the Japan Socialist Party sticks to the "exclusion of the JCP", the JSP will have no significant future.

The Japanese Communist Party is deeply conscious of its increased heavy responsibility and the job it has to do as a progressive party to truly confront the LDP. The JCP will make every effort to implement its election promises. The JCP expresses its firm resolution to meet the people's demands, and to strengthen the quality and quantity of the party, so that it can make an advance to defeat any anti-Communist attacks, in order to end LDP politics in the 1990s.

### JCP Secretary General on Stand After Election

*OW2402064990 Tokyo THE JAPAN TIMES in English 23 Feb 90 p 1—FOR OFFICIAL USE ONLY*

[Article by staff writer Takashi Kitazume: "Communists Aid To Soften Image, Befriend JSP"]

[Text] The Japanese Communist Party [JCP], responding to a severe setback in the lower house election, hopes a softtouch approach will improve its image

and help regain voter support. Mitsuhiro Kaneko, JCP secretary general, said in an interview with THE JAPAN TIMES the party would also call on the Japan Socialist Party [JSP] the largest opposition force, to desert the coalition scheme with centrist forces and join hands with the JCP again.

In Sunday's election, the third largest opposition party could win only 16 seats compared to the 26 it held before the lower house dissolution. Kaneko attributed the JCP's setback to "a massive anticommunism campaign waged (mainly) by the Liberal-Democratic Party, which took advantage of the dramatic changes in Eastern Europe last year." JCP leaders repeatedly argued that their party consistently criticized communist governments of China and Eastern Europe. But Beijing's bloody crackdown on Tiananmen Square demonstrators last July and the fall of communist leaders in Eastern Europe tarnished the party's popular image, and this was reflected in the JSP's showing in recent major elections.

Kaneko admits many people still have a feeling of aversion toward the JCP, with its image as a "dark" and "rigid" political organization. The party plans to attract supporters by talking to them "not from the party's perspective but from the perspective of ordinary people," he said. In particular, Kaneko said, the party would try to appeal to young voters "with a fresh and flexible approach" and expand grass-roots activities. "I noticed that even young JCP supporters, like college students and members of JCP-affiliated youth organizations, no longer think the same way as senior party leaders like me," he said. To fill the generation gap, Kaneko often had informal discussions with young people by drinking with them at a youth-oriented ski resort or singing with women college students at a downtown "karaoke" bar. On Diet affairs, he said the JSP should return to its 1970's partnership with the JCP. Such an arrangement has proved successful in recent prefectural mayorship elections, he added.

## Li Peng Chided on LDP Victory Greetings

*OW0103062890 Tokyo JPS in English 0943 GMT 26 Feb 90—FOR OFFICIAL USE ONLY*

[Text] Tokyo Feb 26 JPS—Chinese Premier Li Peng is reported to have expressed "heartfelt congratulations" to the Japanese ambassador on the Liberal Democratic Party's [LDP] "victory" in the recent Japanese general election, and asked the ambassador to convey his message of congratulations to Prime Minister Toshiki Kaifu. According to a report from Beijing, the talks were held on February 23 in Zhongnanhai, Beijing, and lasted some 30 minutes. It is reported that Premier Li Peng said that the victory of the LDP is "thought as desirable in view of the need for consistency and continuity of the Japanese administration and government, and for the stability of Japanese politics".

Taking this up on its front page, AKAHATA of February 25 said:

"Although the LDP has maintained a majority of seats in the lower house by plutocracy and business-based electioneering, which developed on an unprecedented scale, the number of candidates returned who were officially recommended by the LDP decreased by 25, with 3.3 percent decline in their percentage of the votes compared to the previous election. This is a reflection of the anger of the people at the continuation of the consumption tax, the perpetuation of plutocracy and the destruction of Japanese agriculture.

"But Chinese Premier Li Peng took the trouble to send a message expressing 'heartfelt congratulations' on the LDP's 'victory'.

"This shows once again how far the Chinese leadership, following the path of unprincipled pragmatism and wooing of the LDP government to get economic aid from Japan, is obstructing the Japanese people's movement for political reform and social progress, and has alienated itself from the original standpoint of socialism".

## Abrogation of Security Treaty With U.S. Urged

*OW2402115690 Tokyo JPS in English 0934 GMT 24 Feb 90—FOR OFFICIAL USE ONLY*

[Text] Tokyo Feb 24 JPS—AKAHATA of February 24 carries an editorial entitled "Now Is the Time the Raison d'Etre of Japan-U.S. Security Treaty Should Be Questioned," the excerpts from which follow:

"In his talks with Japanese Prime Minister Toshiki Kaifu, Foreign Minister Taro Nakayama and Defense Agency Director General Juro Matsumoto, U.S. Defense Secretary Dick Cheney pressed on Japan to increase sharply its sharing of cost for U.S. Forces in Japan, while informing them of the U.S. plan to cut these forces by 5,000-6,000. A rumor leaked in the United States has it that Japan is asked to increase that sharing from about 2.4 billion dollars at present to 4 billion dollars.

"In Europe it has become an actual issue on the agenda whether a unified Germany should or should not remain in NATO or/and Warsaw Pact. In the United States, too, the majority of people are of the opinion that the present military cost is too expensive. In short, the dissolution of military blocs and disarmament is becoming a general demand of people in the world.

"Under these conditions, why does the United States ask Japan to make a rapid increase in military cost-sharing, while it plans to maintain less forces in Japan? Such an increase is to go against the trend of disarmament, and poses us to question what the Japan-U.S. Security Treaty is and what purposes it serves.

"The Japan-U.S. Security Treaty is a military alliance under which the United States has maintained its nuclear-attack-capable forward stronghold in Japan, an archipelago which is situated at a strategically important

part of the earth, and under which it can use the Japanese Self-Defense Forces [SDF] as complementary force to the United States' in its global strategy. The treaty is never aimed at a defense of Japan at the cost of United States.

"In its State of the Union message and the Defense Report of this year, the Bush administration made clear an intention to stick, while promoting the U.S.-Soviet cooperation, to the 'policy of strength' based on the two pillars, strategy of 'forward deployment' and military alliances.

"In Japan, indeed, the total area of U.S. bases has expanded about 1.8 times, and more than 60 percent of SDF bases are jointly used with the U.S. Forces in Japan. Furthermore, the command faculties in the Asian and Pacific region is clearly concentrated in Japan.

"At the same time it is also common knowledge that the United States, which suffers from a large budget deficit, has to cut military spending, if it is to increase its economic competitiveness, raise the educational quality, and deal with the social ruins typified by more than three million homeless people. If the United States wants to cut military spending with an unchanged global strategy based on 'policy of strength,' it will have to shift the burden onto its allies so as to maintain the 'cohesion and deterrence of the West.'

"What should be noted is that in the talks on February 22 the Japanese side asked the United States to maintain the 'forward deployment strategy,' and to preserve the operational forces when it implements a personnel reduction.

"The majority of the Japanese people never approve of arms buildup or strengthening of the military alliance, either of which goes against the general trend of world. Indeed, public opinion surveys have shown that some 70 percent of the Japanese people are opposed to further arms buildup.

"Now is the time when a popular argument should be aroused to discuss the question how Japan can abrogate the Japan-U.S. Security Treaty and make sure its peace and security."

## JCP Protests Exclusion From Party Leaders

*OW2402105390 Tokyo JPS in English 0937 GMT 24 Feb 90—FOR OFFICIAL USE ONLY*

[Text] Tokyo Feb 24 JPS—Excluding the Japanese Communist Party [JCP], a called "meeting of heads of Diet members of parties in the House of Councilors" was held on the afternoon of February 23, which caused strong protest by the JCP as an act seriously violating parliamentary democracy.

Shoichi Ichikawa, head of the JCP Diet Policy Committee of the House of Councilors, issued a statement that day, in which he said, "At this time, a meeting is being held, excluding the JCP. It is said that the objective of the conference include a proposal for 'political cease fire' on dealing with the supplementary budget, and development of such a meeting into a 'permanent setup to discuss policies' including the dealing with the consumption tax bills, which will meet regularly.

"This violates the fundamental principle of parliamentary democracy. We take this seriously especially in that the Liberal Democratic Party, which has no majority in the House of Councilors, has brought out such a proposal just after the general election."

## Agriculture Ministry Official on Rice Issue

*OW0203004790 Tokyo THE JAPAN ECONOMIC JOURNAL in English 3 Mar 90 p 5—FOR OFFICIAL USE ONLY*

[Text] Etsuo Kitahara, director of the General Agreement on Tariffs and Trade [GATT] Affairs Office of the Agriculture, Forestry and Fisheries Ministry, recently spoke with THE JAPAN ECONOMIC JOURNAL about negotiations on the rice issue. Here are excerpts:

Q: What is your outlook on the final year of GATT's Uruguay Round farm trade talks?

A: We will resume negotiations in Geneva in April, so we can reach a substantial agreement on a new legal framework by July. Then we will begin talks on how to actually reduce farm support measures. But there are still wide gaps between the countries and anxiety over the future course of negotiations. Japan will try hard to cooperate with those countries which share its views so as to stand up to the farm export-oriented nations.

Q: How is Japan going to deal with the negotiations?

A: Japan is proposing that GATT allow its members to take measures to maintain levels of domestic food production that are necessary for their security. If we don't get that, we cannot participate in the second round of talks on how to reduce farm protection measures, and it will be very difficult for us to take part in efforts to seek any final agreements. But our proposals will not override any commitments made in the past.

Q: Japan's proposal seems to deny even minimal access of foreign rice to the Japanese market. Could such a proposal ever gain support at GATT?

A: The proposal doesn't call for a complete shutout of food staple imports, but rather the need to protect a necessary level of domestic production. Thus, how high production levels are set depends on the GATT negotiations.

Japan is the world's largest importer of farm products. United Nations Food and Agriculture Organization data says that in 1988 Japan posted net imports worth $20 billion. Our food self-sufficiency rate is low. Moreover, even a limited liberalization of basic foodstuff imports could face the danger of international food price fluctuations. As a result, we have to take into consideration the

importance of rice for Japan. But right now, I don't know if our stance will go down with other GATT members.

Q: Do you think Washington will toughen its stance on Japan's closed rice market?

A: Japan and the U.S. have agreed to take up the rice issue during this round of multilateral negotiations. But I cannot deny the possibility that the U.S.'s frustration will get worse. Unless we see some progress in this round, Washington may consider applying the Super 301 provision of the Omnibus Trade Act against Japan's rice supports. but even so, it's clear that Japan is not going to make concessions on this issue. The most important thing is that farm protection measures by Japan, the U.S. and the European Community are discussed simultaneously at the multilateral talks.

### Journal Calls for Efforts To Resolve Rice Issue

*OW2202052890 Tokyo THE JAPAN ECONOMIC JOURNAL in English 24 Feb 90 p 8—FOR OFFICIAL USE ONLY*

[Editorial: "Face the Rice Issue Head On"]

[Text] In the recent House of representatives election, the rice issue was probably the only one on which all political parties took the same stance. All have expressed strong opposition to importing rice. And all have built their election platforms of complete self-sufficiency in rice on the principle of food security.

The question is whether they really believe they can maintain a policy of sealing off the Japanese market so tightly that not even a single grain of rice can get in.

Japan has been one of the primary beneficiaries of the General Agreement on Tariffs and Trade free trade system. Therefore, arguments by this country that rice should be an exception are less than convincing.

Domestic opinion is also split on the rice import issue. In a 1987 poll conducted by the Prime Minister's Office an overwhelming majoity of 71 percent opposed liberalizing imports of rice. In fiscal 1988 the Housewives Association (shufuren) took a poll in metropolitan Tokyo and the neighboring three prefectures, and the results were a virtual draw. While 39 percent, including those favoring imports under certain conditions. [as published] One has to wonder why all the parties are united in ignoring this large shift in the political spectrum in urban areas.

All nations protect their agriculture to a greater or lesser extent. The most important issue in agricultural trade negotiatins, therefore, is how far such barriers can be brought down. Even as the rest of the world is making efforts in this direction, can Japan realistically expect to keep on insisting "not even a single grain..."?

During the course of the beef and orange negotiations, the government to the last continued to mislead the nation's farmers with repeated assurances that it would never liberalize imorts. In this instance, it is duty bound to avoid going down the same road once again.

### MAINICHI Views Debate on Rice Policy

*OW1702020590 Tokyo MAINICHI DAILY NEWS in English 15 Feb 90 p 2—FOR OFFICIAL USE ONLY*

[Editorial: "Rice and Internationalization"]

[Text] The most important thing for Japan in the 1990s is to avoid becoming isolated internationally. However, upon hearing the arguments about rice durign the present campaigning for the general election, a strong feeling of danger arises.

In the debate by the leaders of five political parties, Prime Minister Toshiki Kaifu, Japan Socialist Party [JSP] Chairwoman Takako Doi and the other participants all displayed an attitude of opposition to importing rice. In the street campaigning also, the speeches have emphasized that "not even one grain of rice will be brought in."

Do the political leaders believe that the severe situation of the international society of the 1990s can be overcome by such an attitude?

At such a time, the meeting held in Florida earlier in the year by the ministers of agriculture of Japan, the United States, Canada, the EEC and Australia attracted attention.

When Michihiko Kano, Japan's minister of agriculture, forestry and fisheries, dwelt on Japan's need for 100 percent self-sufficiency in rice, he was strongly criticized by the other four ministers of agriculture attending. While recognizing the need for "rice security," the four emphasized the need, in an international society where the relations of mutual dependence are growing stronger, for broad measures, including an increase in stockpiles and diversification of imports.

Rice is an important theme in the Uruguay Round of GATT discussions that are now taking place, with a conclusion scheduled to be reached before the end of the year.

GATT Article 11 recognizes import restrictions as exceptions but these are restrictions and not the prohibition of imports. Japan has proposed the adoption of a "food security" clause in order to have complete self-sufficiency in rice recognized but this is hardly likely to be approved by GATT.

If Japan adheres to complete self-sufficiency in rice even after GATT issues a "no" to the Japanese proposal, Japan will become subject to providing compensation under GATT rules and will receive strong opposition. The image of Japan, which has fully enjoyed the advantages of free trade, will be badly damaged.

In addition to the international problem, the domestic aspects of rice are likewise severe. During the past 20 years, the consumption of rice has followed a continuous downward curve. The rice acreage has been successively reduced but this has not been able to cope with the situation.

How can domestic rice production make a recovery? The most important thing in the production phase at present is to expand the production scale and reduce costs. Then if the taxation system is drastically reformed and if subsidies are continued, agriculture will become a competitive industry. This may also help to solve the shortage of farm labor and the lack of brides in farming villages.

A strong agriculture is one that is sensitive to market prices. In this sense, the food control system, which ignores market principles, needs to be thoroughly restudied. If, as reported in some quarters, the Ad Hoc Administrative Reform Promotion Council is seeking to avoid a reform of the food control system under pressure from the government and Liberal-Democratic Party [LDP], the strongest self-reflection is needed.

The problem of agriculture, centering on rice, with a decrease of production acreage, is linked with the land problem in cities. The rice problem is also a consumer problem.

To speak loudly about 100 percent rice self-sufficiency, without firm determination or a clear prospect and only for the sake of obtaining votes will only result in deceiving the farmers. Earlier, the government and LDP vowed not to liberalize beef and orange imports, but what happened? Rice too might share the same fate.

## Editorial on Rice Market Liberalization Issue

*OW0203092890 Tokyo THE JAPAN TIMES in English 26 Feb 90 p 20—FOR OFFICIAL USE ONLY*

[Editorial: "Grains of Sense About Rice"]

[Text] Now is the time for more straight thinking and less emotionalism on the volatile subject of rice. But that is easier said than done about the grain introduced into Japan from China during the Yayoi Period—which began around 300 B.C.—and has been the staple of the nation's agriculture and diet ever since. That is a long history, and through the earlier centuries—because of rice's great importance—every step in its cultivation developed into a religious rite.

Even today, many annual rural observances revolve around the planting or harvesting of rice. Families that have engaged in rice farming for generations can hardly easily ignore all traditional beliefs and attitudes and view rice merely as a cash crop the way large-acreage, highly mechanized cultivators in some other countries can.

And yet, that being said, it is essential that Japan's farmers—like the rest of us—accept that change not only must and will come, but is already taking place. Since rice is never out of the news for long, let us try to bring the picture into clearer focus.

Surely few Japanese remain unaware of the pressures being applied by exporting nations for the liberalization of this country's rice market. Only last week, as the third round of Japan-U.S. talks under the Structural Impediments Initiative was about to begin, rice farmers in America joined other groups there in petitioning U.S. Trade Representative Carla Hills to declare Japan a "priority" under the so-called "Super 301" provision of the 1988 trade act for its "unfair" trading practices.

Nevertheless, in the campaign leading up to last Sunday's general election for the House of Representatives, politicians of both ruling and opposition parties insisted they would never permit the importation of even "a single grain of rice." While many observers viewed such statements as largely vote-getting rhetoric, a ranking official of the Agriculture, Forestry and Fisheries Ministry repeated after the election that the government has no intention of abandoning its policy of complete rice self-sufficiency when it attends the GATT (General Agreement on Tariffs and Trade) meeting in April.

The fact is that the government's direct control of rice prices (buying the crop from farmers and then selling it to authorized retailers at a lower price), while intended to protect both farmers and consumers, has resulted in a huge and growing surplus for more than two decades. Despite adjustments to the program and allowing greater play to market forces, Japanese rice prices today are several times higher than the international average.

Yet only a few days ago a research institute reported a December survey that found more than half of all Japanese consumers—and nnearly 60 percent of housewives—are unaware of the often great difference in prices between Japan and abroad. Public awareness seems bound to increase, however, with the attention the subject is receiving from the mass media and the constantly growing number of Japanese who travel abroad.

Beyond a doubt, Japan's rice farmers face a trying period of adjustment. Changing lifestyles and different eating habits have led to a drastic fall in rice consumption—from 13 million tons annually 25 years ago to around 1.5 million tons in 1988. But after decades of government price supports and other forms of protection, it seems ill-advised of farm groups to now allege that the U.S. Government is unfairly helping to fund a public relations campaign here by American rice growers and millers for the ulterior purpose of penetrating the domestic market.

More positive thinking was demonstrated in another report last week about new rice products developed by regional governments to help counter the falling demand. These range from rice ice creams that already

are a success to a rice-based low-calorie vitamin drink, a new rice breakfast cereal, rice noodles and even rice bath salts.

It is only a matter of time before our global obligations bring about at least a partial liberalization of the nation's rice market. Instead of postponing the day with emotional arguments about the supposedly unsuitable taste of foreign rice, steps should be started now to help farmers prepare for the inevitable with programs that assist them in lowering costs, increasing efficiency, varying crops—and, difficult as it may be, even entering other lines of business.

### Business Pushes for Global Projects Funding

*OW2202022490 Tokyo THE DAILY YOMIURI in English 19 Feb 90 p 8—FOR OFFICIAL USE ONLY*

["Currently Speaking" column by Kazunori Ozaki, YOMIURI SHIMBUN staff writer: "Japanese Business Pushes for Global Projects Fund"]

[Text] Business leaders have grasped the initiative by establishing the Global Infrastructure Fund [GIF], which will finance large-scale engineering projects such as the seeding of the Sahara Desert.

In April, businessmen here will establish the first branch of the GIF in the world. Japan's GIF foundation will be headed by Eishiro Saito, chairman of the Federation of Economic Organization (Keidanren) and Shoichi Saba, Keidanren's vice chairman.

A look at the list of the foundation's directors shows the extent of support for GIF from the business community. The list includes big names such as Rokuro Ishikawa, chairman of the Japan Chamber of Commerce and Industry, and Takashi Ishihara, chairman of the Japan Association of Corporate Executives.

So far, more than 30 of Japan's heavyweight firms, including Nippon Steel Corp., Kajima Corp. and Mitsui & Co., have announced their intention to contribute an estimated Y3 billion each to fund GIF global projects.

GIF was proposed in 1977 by Masaki Nakajima, then-head of the Mitsubishi Research Institute, Inc., as a fund to launch huge transnational development projects. Contributors would include Japan, the United States and the European countries.

Nakajima hoped the GIF would help narrow the economic gap between the prosperous northern nations and their poorer cousins in the south. His original proposal called for the investemnt of $510 billion in GIF projects over a period of 20 years. That sum would have been equivalent to what the United States distributed among war-torn nations after World War II.

Currently, projects under consideration include the construction of dams in the Himalayas and Bangladesh, a canal through Malaysia and an undersea tunnel across the Straits of Gibraltar. These projects have the double goals of helping developing countries get on their feet and preserving the global environment.

At a World Economic Forum meeting held early this month at Davos, Switzerland, Keidanren's Saito urged the political and business leaders of industrialized nations to cooperate with Japan to set up the fund.

Saito told the delegates that the drastic political changes in East Europe and the Soviet Union signal the end of the Cold War and proposed that monies generated from proposed arms reductions be channeled into GIF.

U.S. businessmen also have plans to establish their own GIF foundation.

The Japanese foundation, meanwhile, will sponsor an international conference in May. Government officials and businessmen from around the world are expected to attend. The conference delegates are expected to iron out details of GIF, such as how it will be organized, how projects will be selected, and how they will be carried out.

As Japan braces itself for a barrage of criticism from the United States and Europe over trade issues, the push forward of Japanese businessmen in this area of international economic cooperation is quite significant.

Japan is taking the lead in realizing the visionary GIF proposal. Still, there will probably be many obstacles before the GIF is finally established.

### * First Mergers, Acquisitions Year Examined

*902A0060A Tokyo SANKEI SHIMBUN in Japanese 21, 22 Dec 89—FOR OFFICIAL USE ONLY*

**[21 Dec 89 p 9]**

[Article by SANKEI reporter Hajime Mizukami]

[Text] This year was literally the "first M&A (enterprise mergers and acquisitions) year." The multitude of cases of Japan, the creditor superpower, having acquired overseas enterprises, one after another, with the power of "Japan money" even became a source of friction between Japan and the United States. Meanwhile, domestically a succession of "stock buy-out dramas" ran through the stock markets; and the thrusts and parries of hostile M&A's attracted public discussion. With the M&A houses (go-between companies) claiming it is "the trend of the times," we tried looking for future trends with this year's cases as reference.

To be mentioned especially this year was audio equipment manufacturer Sansui Electric's acquisition by the British multinational enterprise Poly-Peck International. Amid the flood of Japanese money going overseas, this was highly rated (by one big securities firm) as "a good example of the fact that, if it is a friendly M&A, foreign firms also can acquire Japanese firms."

The view also emerged that, due to this, a chance had been created for European and American firms to have a better view of Japan because of this; but the massive acquisition of American companies by Japanese enterprises both before and after that managed to rub American feelings the wrong way.

One was the acquisition of Columbia Pictures by Sony. NEWSWEEK magazine said "Sony has bought a part of the American soul," and this developed into an "incident" fanning anti-Japanese feelings. It then continued with the purchase by Mitsubishi Real Estate of 51 percent of the Rockefeller group for what was the highest price ever invested in United States real estate. That brought on the reaction of New Yorkers that "a symbol of America had been bought up."

On the other hand, another feature of this year were those people called "green mailers" or speculators who both here and abroad hold onto stocks for long periods and make all sorts of demands on enterprises.

The to-do raised over the "pirate raid" through a sudden change of stock designation was due to Boone Pickens of the American investment firm Boone, Inc., who came trotting out as top stockholder in the Koito Mfg. Co. He called for an American-style widening of the stockholders' authority, and sought accreditation to the board of directors and an increase in interim dividends.

President Shigeru Kobayashi of Shuwa Industries Co., who became noted for staging the stock buy-up of Tokyo Nissan Auto Sales, had bought up the stocks of medium-sized supermarkets, Chujitsuya and Inageya, calling this "distribution system restructuring." As a countermeasure, the court's initial decision was issued, blocking the plan for third-party allocation of dividends and bringing into being a new for self-regulation of the securities business. This had a great impact on business circles.

**Shifts in Makeup of M&A Types**

| Types | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|
| Among Domestic Firms | 226 | 219 | 223 | 213 |
| Japan to Other Countries | 204 | 228 | 315 | 348 |
| Other Countries to Japan | 21 | 22 | 17 | 13 |

Note: Figures for 1989 are up through November. (Research by Yamaichi Securities)

As shown by the table, M&A's have increased steadily year by year, beginning with Sansui and Sony. However, compared to the increase in cases of Japanese firms buying into foreign nations (the in-out type), cases of foreign firms investing in Japan (the out-in type), as happened with Sansui, are few. Because of this, at the September Japanese-U.S. structural talks we were criticized by the U.S. side due to "Japan's mutual-help system for stocks which blocks foreign firms' entry into Japan."

Yamaichi Securities' Kiyoshi Watari, deputy chief of the enterprise development information section, says, "The fact that there are few of the out-in type is also due to the aspect of Japanese companies being unattractive. Instead of that, attention should be given to comparing the sums invested in private-sector facilities and the reported sums for M&A's." In the United States last year it was 44.9 percent, while in Japan toward the end of this year it seems to have been some four percent. So, he adds, "In light of this, the amount of M&A investment still is small. Yet, because that amount is rising rapidly, we could designate this year as the first M&A year," (Deputy Chief Watari).

President Mitsuo Goto of Nomura Business Information also says, "When we hold meetings explaining M&A, we sense the same fervor as with the meetings explaining market-price dividend increases of around 1965." So, he is one testifying to the coming of the first M&A year.

**[22 Dec 89 p 9]**

[Article by SANKEI reporter Atsuo Nakazawa]

[Text] **Enterprise Defenses Showed Weak Points**

This year, the "first M&A (enterprise mergers and acquisitions) year," has taught much both to firms and to securities circles from the cases of M&A occurring successively here and abroad.

One analyst says, "Pushing ahead while ignoring public sentiment and the thinking of the counterpart company has brought about strong retaliation. Relying on capital's logic that it is a only a business matter between firms has created the friction." Some also point out that, while it is said that our internationalization is proceeding, Japanese firms still have not reached the point of knowing foreigners' "hearts" and "customary practices."

Their acquisitions of foreign businesses have demonstrated the stance of Japanese firms to keep attacking even though there is criticism. But, looking at this from the viewpoint of "enterprise defense" in the face of offensives from overseas firms and stock buy-ups by domestic firms, they have truly been going off in all directions. The intense demands of Boone Inc. as a big stockholder of the Koito Mfg. Co. are still continuing. The move by Shuwa on the big supermarkets, Chujitsuya and Inageya still is not settled. It is true that "each one has a strong hostile image of the other so that any settlement will be long drawn out." However, though it may be called a pretext on the acquiring side, one cannot overlook the fact that "there is justification," (an official of a medium-large securities firm). President Mitsuo Goto of Nomura Business Information, who stood in the thick of the fight as a stand-in for Chujitsuya and Inageya during Shuwa's buy-up, says: "The decision went to Shuwa in the matter of third-party share allocations; but this matter is not one in which who 'won' or 'lost' should be debated. The main point is the issue of the intent of the side doing the buying up." In contrast to the terms "good egg" and "bad egg" which he applied to

the two companies at the time, he displays no grudge at all. Instead, when he is thinking of the future, one can even hear such self-admonition as, "I was taught a good lesson."

Having engaged in such reflection, President Goto warns, "In Japan's case, corporate defenses seem strong but are weak. Corporations are reassured because of having so many steady stockholders; but it is now that they should be earnestly grappling with policies concerning stockholders." Concretely, a fresh awareness of the risks of public stock offerings is needed; and, with respect to overseas, discussion is called for that deals with differences between Japanese and American capitalism and between their actual economies. In particular, with regard to policies on stockholders, we might mention (1) a second look at the makeup of stockholders, (2) returns (dividends) to stockholders and (3) the need for PR with stockholders.

In August when M&A's were going strong, the All-Japan Monopoly Corporation Workers Federation drew up its basic position that, "hostile M&A's are unsuited to Japan's business environment. Since labor-management consensus is necessary, revisions should be made in the bond acquisition law." Even labor, for its part, was strongly irritated. And yet, as to the benefits of M&A, many feel that "for corporations that are self-complacent about the Japanese way of doing business, they become an outside spur for reforms, and will bring about a revision in thinking and a revitalization." Now as we face a new era, "limberness" and "firmness" that can respond flexibly have begun to be demanded of both business and securities circles.

### Yen Affected by Matters Not Related to Economy

*OW0203093290 Tokyo THE JAPAN TIMES in English 26 Feb 90 p 7—FOR OFFICIAL USE ONLY*

[Unattributed "Japanese Perspective" article by a ranking official of the Economic Affairs Ministry, entitled: "The Burden of an Alternative Currency"]

[Text] It's not that easy to accurately forecast market developments. This is especially true in the case of foreign exchange markets, where volatility seems to be increasing as local centers are integrated into one global market.

In the past, it wasn't as difficult to guess the future course of the Japanese yen. If the trade balance began to deteriorate or if the economy started to expand, implying future deterioration of our external balances, we were fairly safe in saying the yen's value would fall. An increase in oil prices was a sign for an increase in imports and, hence, a depreciation of the yen. Failure among oil producing countries to reach agreement on the production quota usually signaled an increase in the value of the yen. Fast economic expansion accompanied by accelerated inflation most often meant the yen would begin depreciating.

However, an increase in cross-border capital flow after 1980, which followed liberalization of foreign exchange controls and growing interest in foreign investments, made yen forecasting more complicated. But we were still pretty much able to predict the yen's movements by looking at the domestic economy and matters related to Japan.

What we also had to do was to focus not only on trade, as in the preceding years, but also on capital transactions. Massive capital outflows or possible indicators of such movement almost always led to a decline in the yen's value. However, things have changed since the mid-1980s. The yen has come to be affected by matters that are not directly related to the Japanese economy or our balance of payments. The yen may weaken even when the domestic economy is sound, if for example, the U.S. budget deficit is on a steady decline. The yen may well stregnthen even when there are no new developments in Japan, if, for example, we see a slower rise in the U.S. consumer price.

This new development—the yen being affected by matters unrelated to the Japanese economy—owes a great deal to the new role of the yen as an alternative currency to the dollar. When markets assess the U.S. economy is strengthening, they buy the dollar against, at least partly, the yen. When they consider the U.S. economy to be deteriorating, they sell the dollar against the yen. In other words, at times, the yen is bought or sold only because people want to sell or buy the dollar. In order to sell or buy the dollar, you need a counterpart currency.

The yen's fluctuation following changes in market assessment of the U.S. economy may be properly understood as the burden of an alternative currency. The fact that the yen is an alternative currency means, among other things, the following.

First, market participants must watch U.S. economic indicators more carefully. These days foreign exchange dealers and even ordinary businessmen follow closely America's economic indicators. They remain at the office into the early hours of the morning on days when the U.S. Government is scheduled to release its employment data.

Secondly, the Japanese Government can't ignore the U.S. economy and economic policy, because the market's assessments of these directly affect the value of the yen. Indeed there is good reason for both Japanese and U.S. authorities to proceed with economic policy coordination. Conversely, in order to stabilize the yen, sound economic developments and credible economic policies are required for both countries.

### Editorial Opposes Hike in Official Discount Rate

*OW2502093090 Tokyo ASAHI EVENING NEWS in English 23 Feb 90 p 6—FOR OFFICIAL USE ONLY*

[ASAHI SHIMBUN 23 February editorial: "End of an Economic Era?"]

[Text] Should the Liberal-Democrats win the general elections, people were saying, stock prices would rise. In

midweek, however, stock prices fluctuated widely on the Tokyo Stock Exchange.

Exceedingly great is the impact of the Tokyo Stock Exchange, which has developed into the world's biggest exchange in terms of aggregate stock value. One American business magazine has gone as far as to say that Wall Street catches cold when Japan sneezes.

Given this picture, it is only natural that people involved in world stock markets should be fearful of triggering simultaneous drops in stock prices around the world. One must keep a sharp eye on stock price fluctuations for the time being.

Stock prices are unstable in anticipation of rises in interest rates around the world. In Japan, there are no signs of a drop in the currency supply at all, and indications are that commodity prices are on the upswing. Given this picture, there are increasingly conspicuous prospects for a rise in Japan's official discount rate, the fourth in recent times if materialized.

Bearish market sentiment has been spurred by statements of U.S. monetary officials that could well be interpreted as meaning that the days of easing monetary policy are on the way out.

The possibility of political stability born of the Liberal-Democratic Party's election victory appears to be acting as a negative factor for stock prices, as it is accepted that there will be increased American pressures on Japan.

Since Japanese stock prices are high from an international perspective, some people argue that the latest crash in stock prices has served to restore them to reasonable levels. In this sense, it might be said that now there is a good chance to get rid of the speculative mood that dominates the stock exchange.

Nonetheless, the fact remains that the Tokyo Stock Exchange has contributed to the maintenance of the global monetary order, as it served to check a global stock crash on Black Monday in October 1987 and again on Friday, Oct. 13, 1989.

At a time when economic performance transcends national borders, Japan's role as a major monetary power has become all the stronger. At least in terms of international coordination, Tokyo should be protected from turning into an epicenter for throwing world money markets into confusion. The Finance Ministry and the Bank of Japan are expected to work out more elaborate countermeasures than ever.

More than anything else, it is to be hoped that the uneasiness of market officials will not increase. There is wide speculation about an increase in the official discount rate, but the government ought to approach this issue prudently.

There are conspicuous factors that might contribute to price rises, but the market is not overheated. Does the situation warrant an immediate increase in the official discount rate?

Second, there is a need to reconfirm policy coordination with major industrialized nations. In so doing, a stop must be put once and for all to the fear engulfing the markets of possible competitive rises in the discount rate between countries.

To avoid multiplying the impact of the latest stock-price crash, developed countries must strengthen coordinated intervention in their foreign exchange markets. In the Japanese economy, there should no longer be scenarios of a weak yen leading to price rises, then to tight money and on to recession.

Perhaps the days are gone when the Japanese economy can enjoy a strong yen, high stock prices and low interest rates. If so, Japanese economic policy may be in need of some new solutions.

### * Officials Vacillate on Raising Interest Rates

*Tokyo ASAHI SHIMBUN in Japanese*
*26, 27 Dec 89—FOR OFFICIAL USE ONLY*

**[26 Dec 89 p 9]**

[Text] Hashimoto Finance Minister: "I saw (the account of official discount rates) in the newspaper. Tell me what is happening."

Mr. Mieno, governor of the Bank of Japan: "Now that you mention it, I remember seeing something about it."

This exchange between the two took place at a monthly cabinet meeting dealing with the economic report on the morning of 19 December, when the newspaper reported the bank's plan to raise interest rates for the third consecutive time.

According to the testimony of an associate at the meeting, Mr. Mieno responded to the finance minister's question with a slight smile on his face, placing his hand on the minister's knee.

When he saw the news report, the finance minister suspected that the Bank of Japan might have leaked the information; "they shouldn't have done this when the government has yet to decide upon the time and scope." He could not restrain his anger when Mr. Mieno made this response to his question, as if this development did not concern him at all.

Upon returning to the Ministry of Finance, angry at the Bank of Tokyo, the finance minister said, "I don't believe that Mr. Mieno leaked the information; but, as we say, where there is fire there is smoke; and so I instructed the Bank of Japan to withdraw the statement immediately." It appears that his anger was directed toward the Bank of Japan's "information leak" and reflected the ill feelings caused by its subsequent

response to his questioning rather than by policy questions concerning the time and scope of the interest rate increase.

He might have thought that, as a former secretary general of the Liberal Democratic Party, he could not very well become a party to raising interest rates which would create financial burdens for medium- and small-size businesses.

At just about the same time, the Bank of Japan's key officer was cautiously phrasing a statement to the effect that, "Nothing has been decided, and the report on increasing interest rates is not actually true but...." Realizing that the finance minister was really angry, the Bank of Japan was alarmed. Mr. Tamura, chief of General Affairs Bureau, who is in charge of financial policy, hastily held a press conference on the same day, at 1:40 PM, and issued a blanket statement.

Realizing that this situation had caused market interest rates and the value of the yen in the foreign currency exchange market to became extremely erratic, Director General Mieno presented a bold front, saying on the following morning, "Until yesterday, the matter was more or less 'up in the air'; however, if we don't do something, the domestic and international credibility of the Bank of Japan and of the Japanese economy will be damaged. We've got to come up with some kind of a picture." However, realizing that Finance Minister Hashimoto's anger had not been dispelled, the Bank of Japan's key officials, without exception, reverted to the previous noncommittal stand. On the 21st, they retreated still further, negating everything previously said.

Two factors are at work in the Bank of Japan's plan for the third increase in interest rates. The first is concerned with the method of controlling fiscal policy. In May 1989, the Bank of Japan, which had finally managed to reverse the "super-financial relaxation policy," put into effect an increase in interest rates for the first time in 92 months. In October, in a surprise move, the bank again raised interest rates. "Internal pressures," such as labor shortages, skyrocketing land prices, and the yen's underlying trend toward lower value—all are problems which remain unchanged and the likelihood of general price rise is steadily gaining strength. As a "guard of currency value," the bank wanted to deal with this situation before it got out of hand.

The other factor was their desire to pave the way for the newly appointed Director General Mieno and to have him credited with having moved in the proper direction. Director General Mieno is the first Bank of Japan career man who assumed bank governorship since Mr. Haruo Maekawa (the director general from 1979 to 1984). In February 1980, during the second oil crisis, Director General Maekawa broke precedents and raised the official discount rate while the budget still was under deliberation in the lower house. Another Bank of Japan career man, Director General Tadashi Sasaki (1969-74), made an error in timing the policy of fiscal tightening in the midst of a Japanese economic boom just before the first oil crisis was to strike. As a result, he was unable to prevent a frenzied jump in prices, and that bitter memory still lingers.

Director General Mieno, who was a direct-line disciple of Director General Sasaki, was groomed as an "heir apparent" and reached the top without ever having had to go outside the Bank of Japan for experience. The key officers of the Bank of Japan, perhaps, wanted to create a new image for Director Mieno so that he would not be identified with the failure of Director General Sasaki.

According to the Finance Ministry's administration office, the ministry and the Bank of Japan actually are not very different in the way in which they interpreted present business conditions and price situations. To stick to a "middle-of-the road type business performance" while grappling with its 1990 big draft budget, one of over 6.6 trillion yen, and the largest supplementary budget, the Ministry of Finance has a difficult task. That is why it appears to prefer allowing the interest-rate policy to take care of the price measures.

Former Director General Sumita who originally came from the Ministry of Finance voiced strong opposition, "The Bank of Japan wants to set a pace for carrying out interest rate increase and to get it done quickly."

The Ministry of Finance's chief executives announced, "Director General Mieno telephoned Finance Minister Hashimoto and said he wants to 'raise the official discount rates by 0.5 percent.'" They said, moreover, "This kind of thing never happened when Mr. Sumita was the Bank of Japan's director general." The call from the Bank of Japan's director general seeking the consent of the finance minister eliminated a reason for the Ministry of Finance to oppose the bank's action.

During an interview which began at 2:30 PM on the 25th, Director General Mieno said docily, "The policy of an official discount rate is executed by the Bank of Japan whose top priority is price stabilization. It is extremely regrettable that a newspaper report triggered a disturbance and caused the finance minister's displeasure. However, I firmly believe that there is no ill feeling between the Ministry of Finance/Finance Minister and the Bank of Japan."

Section 13, subsection 3, of the Bank of Japan Law clearly states that the Bank of Tokyo has the power to "decide or alter official discount rates and interest rates on loans," providing a legal basis for the rule that operations concerning official discount rates are under exclusive control of the Bank of Japan. However, the "discord" which existed between Finance Minister Hashimoto and Director General Mieno during the past week unwittingly exposed the process of fixing official discount rates to public scrutiny, thus providing a glimpse of the somewhat precarious autonomy of the Bank of Japan.

[27 Dec 89 p 9]

[Text] Some economists call the current economic boom, the "Hiyako Boom." Although this designation may have been chosen because of its association with the previous periods of economic prosperity, the "Izanagi Boom" and the "Iwato Boom," it implies that the current boom is supported by working women, among whom are the considerably increased number of housewives who have decided to work on a part-time basis.

However, something is happening to this "hiyako" phenomenon, the phenomenon of women now entering the nation's labor force.

According to the Bank of Japan's nationwide employment statistics, the growth rate of the labor force, compared with that of the previous year, is around two percent for men; but for women, however, the situation is very different. In the early part of 1987, the growth rate was 0.4 percent, but it jumped to three percent in 1988, and reached as high as 5.6 percent in the period, April-June 1989. The growth rate, however, dropped to 4.1 percent in July-September 1989. The Bank of Japan sees this as an indication that the number of women, who can join the nation's labor force, now has bottomed out. Since this figure is expected to slip still further in 1990, down to the same level as that of men's employment, the Bank of Japan is concerned about the worsening "labor shortage" problem.

This increase in the size of the labor force had supported Japan's "five-percent growth" during the three-year period, 1987-89. If the growth were to slow down, what would happen to the Japanese economy? Although the use of robots is one of the ways in which productivity can be increased, the Bank of Japan feels that "even this has its limits," (Toshihiko Fukui, director in charge of policy section). If left alone, wages will skyrocket, and, together with short supply (demand exceeding supply), the increased labor costs will push both product and service costs upward, which, in turn, would lead to spiraling retail prices. The increase in the official discount rates is one of the means by which the Bank of Japan plans to alleviate its concern over such price increase.

Masaru Yoshitomi, director of the Economic Research Institute, Economic Planning Agency, agrees with the Bank of Japan's judgment, "Inflationary pressures will gain momentum, for sure, unless we take appropriate action to curb them. He also points out, "This fact also is reflected in the government's price forecasts. The revised projection for the rate of increase in consumer prices for 1989 is 2.7 percent and the newly issued projection for 1990 is 1.6 percent. At a glance, although prices appear to be coming down, when effects of the consumption tax and of reassessment are subtracted, we have 1.5 percent rise for 1989 and 1.8 percent for 1990, thus projecting a 0.3 percent price increase.

Some disagree with the viewpoint that increases in labor costs are directly linked to inflation. Takao Sasaki, director of Rengo's [National Confederation of Trade Unions] General Livelihood Development Research institute, asserts, "Even if the official discount rate is not raised, the economy will slow down. So, there is no reason whatsoever for the Bank of Japan to be concerned about possible inflation." He points to the downward trends already evident in the ratio of effective labor demand to effective labor supply and in nonscheduled hours worked (when compared with the figures for the same period of the previous year) and even says, "The Bank of Japan places too much importance on a short supply of labor. I am suspicious of its motives. With the approach of the spring labor offensive, the bank may very well be aiming at restraining wage hikes."

What the Bank of Japan aims to accomplish by increasing interest rates at this time is to achieve a "currency exchange rate for the yen which corresponds to Japan's economic capability."

The exchange rate of the yen, which began at 120 yen per dollar in 1989, has steadily declined in spite of the second "Agreement on Downward Adjustment of U.S. Currency" involving major industrial nations and the drastic narrowing of the gap which existed between U.S. and Japanese interest rates. For the past 3 months or so, the exchange rate of the yen has been hovering at around 140 yen. Although the Ministry of Finance and the Bank of Japan are expressing dissatisfaction in the following terms: "From the standpoint of fundamentals (various basic conditions), the yen exchange rate is too low," international economist Teruhiko Mano, a Bank of Tokyo's permanent management team member, analyzes the situation as follows: "In the current situation, I do not believe that a weak yen is at all unreasonable."

The total estimate of capital (long-term) which outflowed from Japan during the 5-year period, 1985-89 is $550 billion. A deficit shown in the balance of accounts, substantially exceeding the surplus margin in the current account, reaches $200 billion. According to Mr. Mano, "Most of the money taken out of Japan is used to buy dollars. This is what is causing the weak yen." The biggest factors in the large capital outflow are as follows: (1) differences in U.S. and Japanese interest rates; (2) boom in overseas factory construction and in acquisition of businesses and real estate; and (3) skyrocketing land and stock prices attracting fewer number of investors.

Mr. Mano articulates his conclusion as follows: "Apart from the kind of investments which are an essential part of business strategy, fiscal tightening is the only way in which the U.S. and Japanese interest rate differential and soaring prices of land and stocks can be improved, either directly or indirectly. Increase in interest rates, therefore, is essential; if anything, they should be raised even higher."

On the other hand, if an increase in interest rates proves to be too effective and brings down domestic demand, Japan's "international commitment" to correction of the trade imbalance will stall. The Bank of Japan's scenario is to maintain domestic demand close to the upper limits

of its potential while curbing inflationary pressures, thereby gradually strengthening the yen in the currency exchange market.

The question of whether things will occur in accordance with the scenario depends upon whether there is an ability to overcome the biggest barrier, namely, "politics." The government has compiled an extensive supplementary budget for 1989. Although declaring its neutrality with regard to a business boom, the Ministry of Finance's draft budget for 1990 may yield to political pressure for liberal spending in order to win the general election if the political situation warrants it. This may very well fuel inflation. Director Yoshitomi of the Economic Planning Agency points out, "We are entering a period in which government policy manifests a mixture of the current easing of government spending and fiscal tightening." There is no guarantee that the Bank of Japan's scenario will not go awry.

### * Financial Circles on Credit to East Europe

*902A0055A Tokyo SANKEI SHIMBUN in Japanese 15 Dec 89 p 3—FOR OFFICIAL USE ONLY*

[Special report by SANKEI economic section reporter, Toshiaki Ono: "Cautious Approach to Loans Toward East Europe: Wait-and-See Concerning Reconstruction"]

[Text] The ministerial conference of 24 Western nations on support to Poland and Hungary decided on 13 December to adopt a policy of economic assistance to six Eastern European nations, including these two nations. Meanwhile, an argument for caution has emerged in Japan's private financial circles regarding financial support for Eastern Europe. The reason is that such changes as the collapse of Communist Party dictatorships and the development of democratization have occurred too suddenly, and the outlook on economic reconstruction has become increasingly unclear.

On 16 November, a week after the crumbling of the Berlin wall, East German Foreign Trade Minister Beil requested "export of high technology for our economic reconstruction" at a meeting with the Keidanren [Federation of Economic Organizations] chairman, Eishiro Saito, and others. About the same time, Poland's Solidarity leader Walesa, who was visiting the United States, pleaded Poland's plight, saying: "We need $10 billion in support funds for our economic reconstruction." The Western nations decided on $1 billion as an immediate measure, of which the Japanese Government was committed to provide $150 million.

In late November, Chairman (Moskovskiy) of the Soviet External Economic Bank and, in early December, Vice Chairman (Kirtz) of the CEMA [Council for Mutual Economic Assistance] Bank visited Japan in succession, and requested economic aid at meetings with leaders of Japan's financial circles.

Among the Eastern European nations grappling with economic reconstruction, Poland faces the most serious task. Although it began economic reforms in 1982, it has failed completely so far.

While its inflation rate remained between 15 and 20 percent for three years beginning in 1983, the Solidarity movement subsequently quieted down, and not only were wages raised repeatedly and higher than necessary, but the inflation rate also surpassed 60 percent due to the abolition of price controls last year. It was accelerated this summer by the induction of a wage-price slide control, with the rate reaching 200 percent. Poland's foreign debts presently total $40 billion (about Y5,600 billion), while its foreign currency reserves conversely amount to a mere $1 billion (about Y140 billion).

Support readiness on the part of the Western private financial institutions, including Japan, appear to tighten in inverse proportion to the full-scale democratization movement in Eastern Europe and their rising expectation toward an easing of tensions.

For example, until now, the loan interest rates of the Western banks loans to Czechoslovakia and Hungary equalled a mere 0.125 to 0.25 percent added on to interest rates on transactions between London banks. However, according to financial sources, when the liberalization movement began to gain momentum, an increasing number of banks became reluctant to provide loans even with an add-on up to 0.5 percent.

Chairman Kunitsugu Miyazaki of the Federation of Bankers Associations of Japan (president of the Dai-Ichi Kangyo Bank), who represents banking circles in Japan, adopts a cautious posture, saying: "We will respond with a forward-looking posture in accordance with government policy. However, public support and private support are two different things, naturally. We would like to study our options after the economic reconstruction programs in Eastern Europe become clearer.

An executive of a major city bank stresses the difficult position of private financial institutions when he says: "Frankly, if the single-party dictatorship of the communist party collapses and democratization moves forward at the present rate, it will be impossible to provide financing to the Eastern European nations as has been done heretofore."

The reason is that "the term 'Eastern Europe' evokes an image of economically bankrupt nations, but they are model nations as seen by the financial institutions. They have a record of always repaying their debts fully by the deadline."

Certainly, Romania, which is bucking reform, surprised the Western financial institutions when the $11.6 billion in debts it owed at the end of 1981 was paid in full by March of this year. At that time, under the strong

policies of President Ceausescu, Romania acquired foreign currencies by selling its domestic supply of agricultural products and beef to the Western nations. Its citizens led a difficult life, but it saved its "face" as a communist state.

This is possible only in the case of a powerful centralized state under a one-party dictatorship. Unlike the Latin American nations with a chronic extension of debt repayments, it may be considered a "good customer" from the viewpoint of the financial institutions.

The financial institutions worry whether an improved living standard can be compatible with debt repayment, as the Eastern European nations move toward democratization and liberalization. The fact is, "no financial institution is willing to provide loans to a nation when it is not clear whether it will repay its debts." (Director Azusa Oshima, Bank of Tokyo).

Chief Atsushi Nakajima of the Industrial Bank of Japan's investigation division points out: "People in Eastern Europe are starved for freedom and economic progress. However, economic abundance does not necessarily follow immediately from democratization and liberalization. If living conditions do not improve and the people become dissatisfied, there is the danger that reform may fail. It is necessary for the peoples of Eastern Europe to recognize that economic reform takes longer than political reform."

Director Izumi Yamashita of the funds division of the Bank of Japan's foreign bureau says: "The industrial base in the Eastern European nations is sound, and labor standards are high. There is a good possibility that, with success in reforms, they could become favorable investment markets for the Western nations." Ironically, however, the democratization of Eastern Europe is tightening the purse-strings of Japan's private financial institutions.

## * 18-Month Economic Forecast Outlined

*902A0056A Tokyo NIHON KEIZAI SHIMBUN in Japanese 19 Dec 89 p 27—FOR OFFICIAL USE ONLY*

[By Japan Economic Research Center chief researcher, Yutaka Omori]

[Text] The Japan Economic Research Center has completed its 18-month economic forecast using the successive approximation method. The major results of that forecast are as follows:

(1) Propelled mainly by domestic demand, the economy will continue to expand in the 1990 fiscal year as well; the real growth rate is expected to be 4.9 percent. That figure represents a slight acceleration over fiscal 1989's 4.8 percent growth rate. The growth rate for fiscal 1989 was revised downward from 5.0 percent to 4.8 percent after adjusting for last-minute effects related to the introduction of the consumption tax, indicating that the economy will be somewhat sluggish.

(2) Consumption will grow stronger, but investment in plant and equipment will stagnate at a level commensurate with the potential growth rate for a pattern of growth characterized by balanced supply and demand.

(3) Workers will continue to be in short supply, although prices will grow only slowly due in part to the strength of the yen; consumer prices will rise by 1.3 percent.

(4) Fluctuations in exchange rates and crude oil prices will bring about a large, temporary increase in the current account surplus. The U.S. economy will slow to a growth rate of 1.5 percent but revive in the second half of the year.

### U.S. Economic Growth To Revive in Second Half of Year

First, let's look at current economic conditions. There are two reasons why real Gross National Product (GNP) grew at the high rate of 2.9 percent in July-September 1989 compared to the preceding quarter. First, in the preceding quarter GNP growth fell off sharply in consumption and investment in plant and equipment in reaction to the introduction of the consumption tax, making this quarter's growth rate look high when compared to last quarter's. Second, excess amounts of interest and dividends received from abroad grew, inverting contribution to foreign demand vis-a-vis the volume of trade by plus 0.4 percent.

With respect to the latter development, of course, the increase in yen-based amounts due to a weaker yen and the way in which seasonal adjustments are figured make it likely to be highly welcome. If these types of technical factors are adjusted, it is estimated that foreign demand becomes slightly negative, and that the GNP grew 2.4 percent from the preceding quarter and 4.6 percent over the same quarter last a year ago.

Consumption will rise in the October-December period due to large increases in winter bonuses and stable prices, and will grow at the high rate of 1.3 percent over the preceding quarter.

March 1989 saw heavy last-minute consumption and investment in plant and equipment due to the introduction of the consumption tax scheduled for 1 April of that year; this spending pushed the growth rate for fiscal 1988 up another 0.1 percent. The reaction to that last-minute splurge appeared in April and the months thereafter. This was a temporary shift in demand and is thought to have had only a minor effect on the overall trend of the economy. Its appearance over the end of one fiscal year and the beginning of the next, however, had the effect of depressing the rate of economic growth for fiscal 1989 by 0.2 percent and inflating that for fiscal 1990 by 0.1 percent.

Next, let's survey the world economy for next year. In fiscal 1990 the U.S. economy will grow at the slow rate of

1.5 percent. The effects of financial stringency will continue to make themselves felt during the first half of the year, and the economy will grow at an annual rate of 1 percent or less. Investment in plant and equipment in particular will remain quite low. At the same time, consumption will be relatively strong due to high wages, so there will be no recession.

As the economy enters a broad slump, the Federal Reserve Board will ease credit. The U.S. economy is highly responsive to interest rates, so the economy will recover in the second half of the year and grow at an annual rate of 2.5-3 percent. Prices will remain fairly stable, with consumer prices expected to rise by 4.1 percent compared to last year.

As for trade, although the strong dollar in 1989 depressed trade volume growth, that period of depressed trade volume will come to an end, reflecting a firm undertone of consumption. The trade deficit will show some slight improvement. Elsewhere, investment earnings will show a deficit and the current account balance will worsen somewhat. The federal deficit will not shrink much, either.

**Heavy Investment in Plant, Equipment as Unified EC Looms**

The NIES (Newly Industrialized Economic Societies) of Asia will experience declining rates of growth due to a slowing of exports to the United States. The Chinese economy's adjustment phase will continue for some time, but the combined economies of Southeast Asia will continue to expand on the strength of direct investment from foreign countries in recent years.

Western Europe's economy will continue to be somwehat sluggish, although growth induced by heavy (for Europe) investment in plant and equipment will continue as a unified European Community (EC) market looms near.

Crude oil prices will weaken somewhat, as the economies of the advanced nations remain sluggish.

As for exchange rates, the yen will rise slowly, averaging about 135 yen to the dollar for the fiscal year and a little under 130 yen to the dollar at year's end. The rise will stem from shrinking differences between interest rates in the United States and Japan and a slowing or even reversal of the pace of redressing the unequal balance of payments between the United States and Japan. However, a firm undertone of demand for dollar-denominated assets on the part of Japanese investors and a fluid international political situation will blunt any lopsided rise in the value of the yen.

**Labor Shortage To Increase Wage Costs**

Even base prices (excluding the consumption tax) rose in fiscal 1989, though this rise was occasioned by a rise in primary commodity prices and a cheaper yen. If these factors are excluded, domestic prices can be said to have remained extremely stable. In fiscal 1990, primary commodity prices and exchange rates will reverse themselves and work to bring prices down. The big problem is labor costs.

The labor market will continue to be tight, although wage increases that will emerge from the fiscal 1990 spring labor offensive will probably be relatively mild—around 5.6 percent. However, the labor shortage will drive up the wages of part-time and irregular workers and affect wages in general. Productivity will show slow growth, so unit labor costs, which in fiscal 1989 showed a plus compared to the preceding year, will accelerate somewhat in fiscal 1990.

The effects on wholesale prices will be minor, however, which will fall 0.9 percent in fiscal 1990 due to large decreases in import prices. Consumer prices—especially services—will be relatively greatly affected by the higher wage costs, and will rise somewhat by 1.3 percent.

Consumption regained strength in the second half of fiscal 1989. In fiscal 1990, consumption will remain steady on the strength of stable prices and steady income growth. Strong auto sales, backed by technical innovations such as development of new cars (in addition to the elimination of the commodity tax), will remain solid for some time due to substantial demand for second cars.

Investment in plant and equipment is already at extremely high levels. As can be seen from the high levels of orders received for machinery, capital goods production is approaching the limits of productive capacity. However, capital goods production corporations' orientation toward price hikes is not strong, so there will not be capital goods induced inflation hereafter, either.

Actual private plant and equipment investment now stands at over 23 percent of GNP, due to the startling rise in such investment in recent years. Let's divide this figure in three and compare it to the period of rapid economic growth in the postwar years. The first part is replacement investment; at a little less than 10 percent, it is double the figure for the earlier era. For although the pace of capital equipment replacement is virtually the same, capital equipment as a proportion of GNP (the capital coefficient) has increased.

The second part is the increase in capital coefficient, composed of an intended part (economizing on manpower and investments in energy-saving equipment, etc.) and an unintended part (delayed rise in capital coefficient due to a drop in capacity utilization). Although this portion, too, has increased by 5 percent, historically speaking it is not at a very high level, and it corresponds to such intended capital intensification efforts as rationalization and labor savings—which in turn reflect the shortage of labor. At this level, the problem of excess capacity will not arise.

The third part corresponds to the acceleration principle; at 8 percent or so, this portion has fallen off somewhat. A plant and equipment investment growth rate of 8

percent hereafter corresponds almost exactly to a growth rate of slightly under 5 percent—cruising speed, one could say.

Housing investment, though at a high level, will soon decline. Qualitative improvements will continue although both home and rental unit housing starts will decline, so real private housing investment will fall off only slightly.

There will be no change in fiscal policy, which is currently neutral. This fiscal year's natural increase in tax revenues will be on the order of 4.1 trillion yen; the supplementary budget will allow the government to escape a deficit during the 1989 fiscal year, thereby completing the program of fiscal reconstruction. Tax revenues will grow steadily next fiscal year as well, reflecting the economic expansion, further increasing the government's overall surplus.

Monetary policy will continue to be governed by restraint, in apprehension of potential inflationary pressures. Short-term interest rates will remain high but fall in the spring. For this reason the inversion between long- and short-term interest rates will be eliminated between the end of 1990 and the beginning of 1991.

The effects on trade of overseas direct investment is expected to manifest itself as a substitution and reimportation of manufactured goods exports in place of parts exports, which in turn replace capital goods exports. It is thought that overseas direct investment from Japan, too, has begun to lessen the trade surplus in earnest.

### Surplus To Shrink in Mid-, Long-Term

Estimates based on the trade function suggest that the limiting effect of this factor on the trade surplus was on the order of $15 billion in both fiscal 1989 and 1990. When set against data on overseas production relations, the conclusion is that two-thirds of all local sales have the effect of replacing exports.

The external surplus, which has been contracting rapidly as of late, will expand next fiscal year. In addition to structural factors affecting the trade balance surplus, such temporary factors as higher crude oil prices and the J-curve effect of the cheap yen will also operate to bring the surplus down significantly in fiscal 1989. Although the surplus will be in a state of steady decline structurally in fiscal 1990 as well, as indicated by the charts virtually all the temporary factors will reverse themselves. For this reason, the surplus will show a large increase compared to fiscal 1989. The invisible trade balance, which until now has consistently expanded the deficit, will also reverse course because traveler's receipts and spending will fall off and, at the same time, net receipts on investment earnings will increase.

As a result, the current account surplus, after shrinking sharply from $77.3 billion in fiscal 1988 to $54.8 billion in fiscal 1989, will increase again to $73 billion in fiscal 1990. The surplus will decline over the medium term, however, as overseas production increases and the U.S. budget deficit is reduced with the end of the cold war, so next year will be the final mountain to be climbed on the way to reducing the surplus.

Although that mountain is not a high one, it will be necessary to take care that economic frictions do not worsen in reaction to the downturn in the U.S. economy and unrealistically high expectations of talks on structural impediments to Japanese-U.S. trade.

Fluctuations in the economy have stabilized due to a variety of structural changes, including advances in inventory management techniques, the diversification of durable consumer goods and expanded imports of manufactured goods. The Japanese economy will continue to expand steadily in fiscal 1990 as well. That expansion will be mild due to a leveling off at cruising speed of investment in plant and equipment, but that does not signal the start of a recession.

Capital-intensive plant and equipment investment will maintain a balance between supply and demand, so the economy will continue to expand on an ideal pattern of growth near the limits of its potential, challenging the record-setting length of the postwar economic expansion.

**Table I: Outlook for the U.S. Economy (percent year earlier, in billions of dollars)**

| | Actual 1987 | Actual 1988 | Projected 1089 | Projected 1990 |
|---|---|---|---|---|
| Real Gross National Product | 3.7 | 4.4 | 2.9 | 1.5 |
| Private consumption expenditure | 2.8 | 3.4 | 2.9 | 2.7 |
| Private residential investment | Δ0.5 | Δ0.4 | Δ2.6 | Δ0.5 |
| Private Investment in Plants and Equipment | 3.9 | 8.4 | 3.5 | Δ0.3 |
| Private Inventory Investment | (0.5) | (0.1) | (Δ0.2) | (Δ0.2) |
| Government Expenditures | 2.6 | 0.4 | 2.8 | 0.7 |
| Net Exports | (0.4) | (1.1) | (0.4) | (Δ0.1) |
| Exports | 13.5 | 17.6 | 10.6 | 4.8 |
| Imports | 7.5 | 6.8 | 6.3 | 5.2 |
| Nominal Gross National Product | 6.9 | 7.9 | 7.3 | 5.6 |

**Table I: Outlook for the U.S. Economy (percent year earlier, in billions of dollars) (Continued)**

| | Actual 1987 | Actual 1988 | Projected 1089 | Projected 1990 |
|---|---|---|---|---|
| Industrial Production | 3.8 | 5.7 | 3.3 | 1.2 |
| Consumer Prices | 3.6 | 4.1 | 4.8 | 4.1 |
| Producer Prices (finished goods) | 2.1 | 2.5 | 5.0 | 2.7 |
| Unemployment Rate (percent) | 6.2 | 5.5 | 5.3 | 5.6 |
| Yield on 30-Year Treasury Bonds (percent) | 8.6 | 9.0 | 8.5 | 7.5 |
| Balance of Trade | Δ159.5 | Δ127.2 | Δ113.9 | Δ110.1 |
| (percentage of nominal GNP) | Δ3.5 | Δ2.6 | Δ2.2 | Δ2.0 |
| Current Account | Δ143.7 | Δ126.6 | Δ116.5 | Δ119.0 |
| (percentage of GNP) | Δ3.2 | Δ2.6 | Δ2.2 | Δ2.2 |
| Net Foreign Claims Balance | Δ378.3 | Δ532.5 | Δ649.0 | Δ768.0 |
| (percentage of GNP) | Δ8.4 | Δ10.9 | Δ12.4 | Δ13.9 |
| Federal Government Revenues and Expenditures | Δ167.5 | Δ245.0 | Δ152.0 | Δ141.1 |
| (percentage of GNP) | Δ3.7 | Δ3.0 | Δ2.9 | Δ2.5 |

Note: In the section on Gross National Product, Delta indicates percent decrease from preceding year; in the section on balance of trade and below, it indicates a deficit; as a proportion of GNP it indicates a minus. Figures in parentheses for inventory investment and net exports indicate extent of contribution to the rate of growth. Figures given for the balance of trade and for government expenditures are computed against IMF (balance of payments) base and GNP base (accounting year), respectively.

**Table II: Quarterly Forecast of Key Economic Indicators**

| | Fiscal 1988 | Fiscal 1989 | | | | Fiscal 1990 | | | | Actual Fiscal 1988 | Projected Fiscal 1989 | Projected Fiscal 1990 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | March | June | September | December | March | June | September | December | March | | | |
| Nominal Gross National Expenditure (in trillions of yen) | 382.9 | 384.4 | 396.1 | 402.0 | 408.4 | 412.7 | 417.2 | 423.9 | 429.3 | 372.5 | 397.7 | 420.8 |
| (Percent preceding quarter) | 2.1 | 0.4 | 3.1 | 1.5 | 1.6 | 1.0 | 1.1 | 1.6 | 1.3 | 6.0 | 6.8 | 5.8 |
| (Percent preceding year, same quarter) | 6.0 | 6.4 | 6.9 | 7.2 | 6.7 | 7.4 | 5.3 | 5.4 | 5.1 | | | |
| Real Gross National Expenditure (in trillions of yen) | 343.2 | 340.6 | 350.5 | 355.0 | 358.1 | 363.6 | 366.8 | 370.8 | 371.4 | 335.0 | 351.0 | 368.2 |
| Percent preceding quarter | 1.8 | Δ0.8 | 2.9 | 1.3 | 0.9 | 1.5 | 0.9 | 1.1 | 0.2 | 5.3 | 4.8 | 4.9 |
| (Percent preceding year, same quarter) | 5.2 | 4.6 | 5.1 | 5.3 | 4.3 | 6.8 | 4.6 | 4.4 | 3.7 | | | |
| Private Final Use (percent preceding year, same quarter) | 4.5 | 2.3 | 3.0 | 4.0 | 3.8 | 5.7 | 4.7 | 3.7 | 3.6 | 5.0 | 3.3 | 4.4 |
| Private Residential Investment (percent preceding year, same quarter) | Δ0.8 | 6.1 | 3.3 | 0.9 | 0.7 | Δ1.8 | Δ1.2 | Δ1.0 | Δ1.3 | 5.3 | 2.9 | Δ1.3 |
| Private Corporate Investment in Plant and Equipment (percent preceding year, same quarter) | 19.8 | 15.1 | 18.5 | 15.4 | 10.4 | 11.8 | 6.3 | 7.9 | 8.1 | 17.3 | 14.5 | 8.4 |
| Private Stock Increase (in trillions of yen) | 1.1 | 2.5 | 1.8 | 1.0 | 2.5 | 2.4 | 2.4 | 1.2 | 2.4 | 2.1 | 1.9 | 2.1 |
| Government Final Use (percent preceding year, same quarter) | 2.6 | 2.1 | 1.7 | 2.3 | 1.7 | 2.1 | 2.4 | 7.8 | 2.3 | 2.2 | 2.0 | 3.6 |
| Public Fixed Asset Formation (percent preceding year, same quarter) | Δ3.3 | Δ0.8 | Δ1.3 | 1.8 | 0.1 | 1.2 | 2.9 | 0.2 | 1.9 | 1.2 | Δ0.0 | 1.5 |
| Public Inventory Increase (in trillions of yen) | 0.3 | 0.4 | 0.1 | Δ0.3 | 0.2 | 0.4 | Δ0.0 | Δ2.1 | 0.3 | Δ0.2 | 0.1 | Δ0.4 |

**Table II: Quarterly Forecast of Key Economic Indicators (Continued)**

| | Fiscal 1988 | Fiscal 1989 | | | | Fiscal 1990 | | | | Actual Fiscal 1988 | Projected Fiscal 1989 | Projected Fiscal 1990 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | March | June | September | December | March | June | September | December | March | | | |
| Surplus of the Nation on Current Account (in trillions of yen) | Δ0.1 | Δ2.2 | Δ1.0 | 0.0 | Δ2.5 | 0.4 | Δ0.5 | 1.3 | Δ3.9 | 0.5 | Δ1.4 | 0.7 |
| Exports (percent preceding year, same quarter) | 17.0 | 17.5 | 13.3 | 16.9 | 9.7 | 12.6 | 4.9 | 5.8 | 4.6 | 10.7 | 14.2 | 6.9 |
| Imports (percent preceding year, same quarter0 | 23.8 | 20.3 | 17.2 | 19.6 | 13.2 | 8.4 | 4.1 | 4.1 | 6.3 | 21.4 | 17.5 | 5.7 |
| Wholesale Price Index (percent preceding year, same quarter) | 0.2 | 3.2 | 3.1 | 3.8 | 3.7 | 0.7 | Δ0.7 | Δ1.3 | Δ2.1 | Δ0.7 | 3.5 | Δ0.9 |
| Consumer Price Index (percent preceding year, same quarter0 | 1.1 | 2.8 | 2.7 | 2.6 | 3.0 | 1.4 | 1.3 | 1.2 | 1.2 | 0.7 | 2.8 | 1.3 |
| Industrial Production Index (1985 = 100) | 119.4 | 119.4 | 119.6 | 122.3 | 125.3 | 125.8 | 127.3 | 129.0 | 130.1 | 115.1 | 121.7 | 128.1 |
| (percent preceding quarter) | 3.1 | 0.0 | 0.2 | 2.3 | 2.4 | 0.5 | 1.2 | 1.3 | 0.9 | 8.8 | 5.7 | 5.3 |
| (percent preceding year, same quarter) | 7.9 | 7.1 | 5.1 | 5.7 | 4.9 | 5.4 | 6.4 | 5.5 | 3.9 | | | |
| Current Account (in hundreds of millions of dollars) | 160.6 | 142.8 | 146.3 | 150.8 | 107.8 | 162.8 | 193.1 | 216.0 | 158.1 | 772.7 | 547.7 | 730.1 |
| Yen-to-dollar Exchange Rate | 128.45 | 138.07 | 142.29 | 143.00 | 144.00 | 141.00 | 137.00 | 132.00 | 129.00 | 128.26 | 141.84 | 134.75 |
| CIF Crude Oil Price (dollars/ barrel) | 14.84 | 17.61 | 17.19 | 17.30 | 17.30 | 16.60 | 16.50 | 16.50 | 16.20 | 14.85 | 17.35 | 16.45 |

Note: Units in percent, real values calculated in 1980 prices; Delta indicates minus. Gross National Expenditure (GNE) and industrial production index have been seasonally adjusted. GNE amount only shown at annual rate; composite items are real. "Percent preceding year, same quarter" figures in "actual figures" sections are baseline calculations.

**Table III: Changes in the Trade Surplus and their Causes (in hundreds of millions of dollars; Delta = minus)**

| | Fiscal 1989 minus Fiscal 1988 | Fiscal 1990 minus Fiscal 1988 | Comments |
|---|---|---|---|
| Imports | | | |
| A Overseas Economy | 302 | 588 | The world economy will continue to expand, but at a somewhat slower rate in fiscal 1990 |
| B Domestic Productive Capacity | 31 | 67 | Surplus capacity will increase somewhat in fiscal 1990 due to the large increase in investment in plants and equipment |
| C Overseas Direct Investment | Δ146 | Δ291 | Overseas production will continue to increase steadily, and will replace exports |
| D Exchange Rate | Δ74 | 25 | The J-curve effect of the cheap yen from Spring 1990 on (the yen will rise slowly in fiscal 1990) |
| E Other | Δ68 | 32 | Domestic costs are a factor that will push up the price of exports slightly in fiscal 1990 |
| F Total | 45 | 355 | Total of A through E |
| Exports | | | |
| G Crude Oil Prices | 52 | 29 | Crude oil prices rose $2.50 a barrel in fiscal 1989 but will soften a little in fiscal 1990 |
| H Exchange Rate | Δ69 | Δ85 | Delayed effect of prices of the cheap yen show up |
| I Gold Reserves | 46 | 7 | External cash investment designed to take advantage of differentials between futures and spot market prices will take a breather in fiscal 1990 |

**Table III: Changes in the Trade Surplus and their Causes (in hundreds of millions of dollars; Delta = minus) (Continued)**

| | Fiscal 1989 minus Fiscal 1988 | Fiscal 1990 minus Fiscal 1988 | Comments |
|---|---|---|---|
| J Introduction of Consumption Tax | Δ34 | Δ17 | Effected a last-minute surge in imports at the end of fiscal 1988 and a reverse reaction at the beginning of fiscal 1989 |
| K Other | 251 | 443 | Domestic demand will continue to grow at a steady pace, with imports permeating more deeply into the economy |
| L Total | 246 | 377 | Total of G through K |
| Balance of Trade | Δ201 | Δ22 | Total of F minus L |
| Temporary Factors | Δ139 | 125 | Total of D plus E minus G minus H minus I minus J |
| Structural Factors | Δ64 | Δ145 | Factors other than the above = A plus B plus C minus K |

## * International Changes Affect Economic Forecast

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[Article by Damiura Junza, Japan Economic Center chief researcher]

[Text] Embarked upon a path of stable growth led by domestic demand, the Japanese economy hereafter will probably increase its contribution to the world economy as it accepts its role of driving the development of the market economies. The Japan Economic Research Center has forecast the mid-term course (1989-94) of Japan's economy faced with a tumultuous period of Soviet-East European economic breakdown and the integration of the European Community's (EC) markets.

(1) The world economy will face temporary weakness in the United States and Britain but, with Asia's continued high growth, will continue stable growth close to the level between 1982-88.

(2) The Japanese economy, with an average annual real growth rate of 4.3 percent and domestic demand of 4.9 percent, will establish itself as a domestic demand-led economy.

(3) Capital investment and private consumption will play the main roles in Japan's economic growth. The number of hours worked will gradually decline to a pace on a par with that of the 1960's, but labor's share of national income will not rise.

(4) The balance in public finances will tend to improve rapidly, and the surplus in the household savings rate will be reduced.

(5) Industry's internationalization will progress and the ratio of imported manufactured items will reach 55 percent.

### Capital Investment Near 30 Percent of GNP

The Japanese economy after 1987 has succeeded in the establishment of a domestic demand-led economy along with the industrial structure's transformation and the economy's internationalization, which will hereafter advance at an even more accelerated pace.

At the time of this forecast, we established the following premises:

(1) The real growth rate in the world's gross domestic product's (GDP) will be 3.1 percent a year. By region, North America will be 2.8 percent; Europe, 2.9 percent; Asia, 6.1 percent; the planned economic bloc, 2.3 percent; and so forth.

(2) The price of crude oil (the CIF [carriage, insurance and freight] price for Japan), after falling somewhat from the present price to $17 a barrel in 1990, will rise gradually from 1991 at the pace of a dollar a year.

(3) The yen's dollar rate will rise from 1989's $1 = Y140 at the pace of 5 yen each year until 1992, then will reach Y120 in 1994.

(4) Regularization of public financial policy will advance. Following the halt in issuing deficit-financing bonds in 1989, the government will begin fixed-rate redeeming of government bonds from 1990 and a reduction in the value of government construction bonds released. As a result, the ratio of the balance of government debt to GNP will fall from 1988's 43 percent to 33 percent in 1994. We set the consumption tax as it is now. Further, assuming small-scale income tax reductions (in 1992, 1994), we can forecast an extremely high level of domestic demand-led growth.

Looking at changes over the years, exports will have difficulty growing in 1990 due to a slowdown in the U.S. economy, and there will be a decline in housing investment. But consumption expenditures will rise, preventing a rapid fall in the growth rate. In 1991, the decline in the rate of increase for capital investment will become conspicuous, and business conditions will reach their low point. Due to an increase in public investment, however, there will be no extreme decline in the growth rate.

Come 1992, both capital and housing investment will show signs of recovery, and consumer spending will also

recover due to reduced income taxes. In 1993, the increase in consumer spending and capital investment will become remarkable. Into 1994 as well, the economy is likely to show growth on a par with that in 1989, due to continued vigorous domestic demand.

Among demand items, capital investment and consumer spending consistently influence the rate of growth and underpin business conditions. Capital investment since 1987 has become the driving force in establishing a domestic demand-led economy, but even throughout the forecast period it shows a yearly average increase of 8 percent, leading domestic demand.

Capital investment has a cyclical character, declining at times of increased supply capability. In 1991, investment will enter into a period of adjustment in some industries, but the fall will not be as great as before. As for capital investment since 1987, independent investment not connected to research and development, mechanization, strengthening of the sales network, and so forth has been large. Since independent investment is difficult to reduce even in times of recession, it lessens the undulation of the investment cycle.

What one should note is the profitability of investment born of the price differential between capital goods and consumer goods. Since the yen's rise, the price of investment goods has been at a lower level than that of consumption goods due to the fall in the price of imported raw materials. Companies have been using this to their advantage as a kind of terms of trade (the ratio between the price of imports and the sales price). As long as this condition continues, there is a strong possibility capital investment will play the lead role in domestic demand.

As a result, although the ratio of nominal capital investment to nominal GNP was 20 percent in 1989 and will stop at 23 percent in 1994, the ratio of the real investment figure to real GNP will reach 29 percent in 1994 from 24 percent in 1989. Capital investment accounting for close to 30 percent of GNP can be seen as an oddity, but it shows the severity of the change in the economic structure.

### Labor's Low Share Is Driving Force of Growth

Consumption expenditure throughout the forecast period will underpin domestic demand. Consumption expenditure will continue to grow due to reduced working hours and the growth in financial assets. Its growth will also be due to high growth in employee earnings in the first half of the forecast period and remarkable growth in consumption from 1992. A continuing increase in free time, the increase in household assets, and the rise of employment of the elderly as well, are likely to increase the propensity to consume. As a result, consumption expenditures will show an annual average increase of 4.4 percent, exceeding the economy's rate of growth.

Employee income will greatly increase in the range of 7 percent by 1990 as the severe labor shortage continues, but from 1991 until 1993 it will probably increase at a rate below 5 percent. The reason is that from 1991 there will even be a rise in the number of part-time workers and the rate of increase in per capita employee income will fall. As employment grows increasingly fluid and part-time, increased employment of the elderly will likely spur on this trend.

As a result, labor's share of national income (employee income divided by national income minus personal and corporate income) will increse at a low level. There is a tendency for labor's share to fall when economic conditions are good and rise when they are bad, but it will stop at around the 77 percent level of the economic growth period of 1988-89. There is a large difference between labor's share in Japan and the high 80-90 percent of that in Western European countries.

Labor's low share is a special feature of Japan's economy. Its low share is natural for Japan, which grew by concentrated capital investment, but a company-centered way of thinking has strong roots among Japanese workers.

Also, widespread wage increases after the first oil shock accelerated inflation, effectively lowering real incomes. Conversely, the restraint in wage increases after the second oil shock did not bring on inflation; by strengthening international competitiveness, it worked to raise real incomes. In the 1988 and 1989 annual spring wage offensives as well, wage increases were a low 4-5 percent, the trend appeared to be one of giving more weight to reduced working hours than to increased wages.

This kind of management-labor relationship in Japan does not seem likely to change, at least for the period forecast. Labor's low share will be the continuing driving force behind economic growth centered on capital investment.

Prices will show continued stability. The effect of the consumption tax introduced in April this year was that general wholesale prices rose 1.1 percent and consumer prices 1.3 percent. From 1990, a gradually rising yen and more manufactured goods imported from Asia will weaken the influence of a rise in oil prices. General wholesale prices will remain at between 0.1-1.3 percent each year, consumer prices at 1.1-1.9 percent.

### Advancing Horizontal Division of Labor Centered on Asia

Let's look at the outstanding problem of the international balance. 1989's current account surplus is set to fall sharply to $61.2 billion from 1987's $77.3 billion. The trade surplus will fall by nearly $14 billion to $81.8 billion; accordingly, there has been a large decrease in the rate of increase for exports in contrast to a steady increase in imports. Nearly one-fourth of the rise in

imports is due to the rise in crude oil prices; falling crude oil prices in 1990 wil be a factor in the difficulty for increasing imports.

The problem is the fall in the rate of increase for exports. The dollar price of the one-third of exports denominated in yen contracts has fallen due to the weak yen; that is, due to the working of the weak yen's J-curve effect. If that is the case, exports will rise in 1990 when the yen strengthens. The fall in 1990's trade surplus will likely remain extremely small.

In 1991, Japan's growth rate will slow and imports will have difficulty growing. On the other hand, since the United States and Europe's economies will be into their recoveries, Japanese exports will be remarkable. As a result, both the trade balance and current account balance surpluses are likely to grow to 1989's level.

The expansion in the trade surplus will remain only a temporary phenomenon. From 1992, local production overseas of machine goods in America and Europe will start to come on stream. Exports of passenger vehicles, electrical goods, office equipment, and such will have difficulty growing and cases of reverse imports are likely to appear.

Imports of low-priced goods from the Asian NIES (newly industrializing economic societies) and various ASEAN countries will become fully established and are likely to continue growing steadily. From 1992 the trade surplus will certainly shrink; 1994's trade surplus is likely to fall to less than $60 billion and the current account balance to $50 billion.

Although the deficit in the invisible trade balance will expand with the deficits in the transport and travel balances, the favorable balance in receipts from investment profits will expand at an even faster rate; the deficit in the invisible trade balance will slowly shrink, probably reaching a level of nearly zero in 1994.

Assuming such changes on the macro side, the internationalization of industrial activity will expand even further and is likely to bring about qualitative changes. Over one-third of total overseas investment in both manufacturing and nonmanufacturing between 1951 to 1988 occurred in the 2 years of 1987-88.

Already trade with South Korea in VCR's is changing into an excess of imports by a wide margin, and even in steel the value of exports and imports has become nearly equal. Even the export excesses in office machine exports to the United States and in automobile exports to Europe are shrinking. The horizontal division of labor is advancing.

The specific contents of the division of labor are also likely to change. Until now in developing countries, the pattern was to produce low value-added products, but now manufacturers are establishing research centers and the process, starting from product development, is occurring on the spot. Japanese corporations already in 1986 had established 43 research centers in Southeast Asia. Cases are appearing where Japanese companies are developing locally audio equipment suitable for that region's sense of hearing. This is probably moving toward a mature horizontal division of labor with the aim of product distinction.

**Table 1. Forecast of Main Macroeconomic Indicators (figures between parentheses are percentage comparison with previous year)**

| | | Forecast | | | | | | Annual Average Growth Rate | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1980/1985 | 1985/1990 | 1990/1994 |
| Gross National Expenditure Nominal (trillion yen) | 37.1370 | 40.1420 | 42.5662 | 44.6791 | 47.0271 | 50.0071 | 53.4240 | | | |
| | (5.7) | (8.1) | (6.0) | (5.0) | (5.3) | (6.3) | (6.8) | 5.5 | 5.8 | 5.9 |
| Gross National Expenditure Real (trillion yen) | 33.3936 | 35.0204 | 36.4751 | 37.7582 | 39.3215 | 41.2032 | 43.2159 | | | |
| | (5.1) | (4.9) | (4.2) | (3.5) | (4.1) | (4.8) | (4.9) | 4.0 | 4.4 | 4.3 |
| Private Final Consumption Expenditure | 18.4806 | 19.2726 | 20.1686 | 20.9615 | 21.8516 | 22.7953 | 23.8552 | | | |
| | (4.7) | (4.3) | (4.6) | (3.9) | (4.2) | (4.3) | (4.6) | 2.9 | 4.3 | 4.4 |
| Private Housing Investment | 2.0999 | 2.1191 | 2.0807 | 2.1033 | 2.2018 | 2.3003 | 2.3151 | | | |
| | (7.0) | (0.9) | (-1.8) | (1.1) | (4.7) | (4.5) | (0.6) | -1.4 | 8.1 | 1.8 |
| Private Corporate Capital Investment | 7.2891 | 8.4280 | 9.2287 | 9.6293 | 10.3130 | 11.2824 | 12.3881 | | | |
| | (17.9) | (15.6) | (9.5) | (4.3) | (7.1) | (9.4) | (9.8) | 7.1 | 11.4 | 8.0 |
| Government Final Consumption Expenditure | 2.9254 | 2.9751 | 3.0584 | 3.1337 | 3.2167 | 3.3021 | 3.4048 | | | |
| | (2.2) | (1.7) | (2.8) | (2.5) | (2.6) | (2.7) | (3.1) | 2.7 | 2.4 | 2.7 |
| Public Fixed Capital Formation | 2.4982 | 2.5257 | 2.5737 | 2.7085 | 2.8033 | 2.8975 | 2.9508 | | | |

**Table 1. Forecast of Main Macroeconomic Indicators (figures between parentheses are percentage comparison with previous year) (Continued)**

| | | Forecast | | | | | | Annual Average Growth Rate | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1980/1985 | 1985/1990 | 1990/1994 |
| | (2.2) | (1.1) | (1.9) | (5.2) | (3.5) | (3.4) | (1.8) | -2.1 | 4.4 | 3.2 |
| Exports | 6.1005 | 6.8488 | 7.0052 | 7.2778 | 7.5952 | 7.9640 | 8.4235 | | | |
| | (10.1) | (12.3) | (2.3) | (3.9) | (4.4) | (4.9) | (5.8) | 8.3 | 5.1 | 4.2 |
| Imports | 6.1268 | 7.3348 | 7.8622 | 8.2469 | 8.8634 | 9.5480 | 10.3629 | | | |
| | (21.9) | (19.7) | (7.2) | (4.9) | (7.5) | (7.7) | (8.5) | 2.2 | 13.2 | 7.2 |
| General Wholesale Price Increase (%) | -0.7 | 3.5 | 0.1 | 0.4 | 0.1 | 0.9 | 1.3 | -0.6 | -1.8 | 0.6 |
| Consumer Price Increase (%) | 0.8 | 2.8 | 1.8 | 1.5 | 1.1 | 1.6 | 1.9 | 2.5 | 1.2 | 1.6 |
| Annual General Real Working Hours | 2,100 | 2,081 | 2,048 | 2,006 | 1,992 | 1,960 | 1,936 | | | |
| | (-1.0) | (-0.9) | (-1.6) | (-2.1) | (-0.7) | (-1.6) | (-1.2) | 0.1 | -0.6 | -1.4 |
| Full Unemployment Rate (%) | 2.4 | 2.3 | 2.4 | 2.6 | 2.5 | 2.4 | 2.3 | — | — | — |
| Household Savings Rate (%) | 16.1 | 16.2 | 16.3 | 15.8 | 15.2 | 14.6 | 14.4 | — | — | — |
| Current Account Balance ($billion) | 77.3 | 61.2 | 58.3 | 63.0 | 58.7 | 53.7 | 48.4 | — | — | — |
| Trade Balance ($ billion) | 95.3 | 81.8 | 78.2 | 80.9 | 75.0 | 68.0 | 59.3 | — | — | — |
| Yen/Dollar Rate | 128 | 140 | 135 | 130 | 125 | 122 | 120 | — | — | — |
| CIF Crude Oil Price ($/bl) | 14.9 | 17.5 | 17.0 | 18.0 | 19.0 | 20.0 | 21.0 | — | — | — |
| U.S. Real GNP Rate of Increase | 4.4 | 2.9 | 1.8 | 2.7 | 3.6 | 3.1 | 2.8 | 2.6 | 3.1 | 2.8 |

Note: Household savings rate forecast from 1988. U.S. real GNP growth rate in calendar year.

**Table 2. The Contribution of Domestic/External Demand and Net Foreign Investment to Real Gross National Expenditure (%)**

| | | | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | 1985 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
| Domestic Demand | 3.7 | 6.2 | 6.8 | 6.3 | 5.3 | 3.9 | 4.9 | 5.6 | 5.8 |
| Private Demand | 4.0 | 5.9 | 6.5 | 6.0 | 5.0 | 3.3 | 4.4 | 5.2 | 5.5 |
| Public Demand | -0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.6 | 0.5 | 0.4 | 0.3 |
| External Demand | 0.8 | -1.0 | -1.7 | -1.4 | -1.1 | -0.4 | -0.8 | -0.8 | -0.9 |
| Real Gross National Expenditure | 4.5 | 5.2 | 5.1 | 4.9 | 4.2 | 3.5 | 4.1 | 4.8 | 4.9 |
| Foreign Net Investment ($billion) | 12.98 | 24.07 | 29.17 | 34.93 | 39.17 | 43.75 | 48.02 | 51.92 | 55.44 |

## * Toyota To Decentralize Auto Operations

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[By Takashi Funaki, NIKKEI staff writer]

[Text] Japan's largest automaker is decentralizing. Toyota Motor Corp., which has always concentrated its plants and parts suppliers at its base in central Japan's Toyoty City, Aichi Prefecture, has exhausted the area's supply of labor, forcing it to set up shop elsewhere.

The move will also result in changes in Toyota's famous "kamban method," a highly efficient just-in-time inventory system made possible by the proximity of the automaker's suppliers.

Toyota is now trying to set up plants in Fukuoka Prefecture, Miyagi Prefecture and the northernmost island of Hokkaido. It also envisions restructuring its domestic production system.

Of the firm's 140 parts suppliers, about half are headquartered in Aichi Prefecture, while the remainder have plants there.

In the midst of booming domestic demand, Toyota had been boosting production and trying to hire more workers locally. But the labor shortage became so acute that Toyota found itself fighting over the same potential employees that its suppliers were trying to hire.

**Competition for Workers**

Although the kamban method served Toyota well for many years, the system is now backfiring on the automaker. An executive of one parts maker says, "We will be very grateful if Toyota sets up plants outside Aichi Prefecture. Right now, whenever we want to hire workers, Toyota lures them away with better pay. It's not fair because we can't afford to offer higher salaries than those of Toyota."

Last December, each prospective employee in the Kariya district near Toyota City could count on an average of 3.25 job offers. Those in the Toyota district had their choice of 3.17 positions. That compares with a 2.37 ratio for all of of Aichi Prefecture, which in itself is a high figure when placed against the nationwide average of 1.23.

Without the decentralization plan, the only way Toyota could salvage its kamban method, which allows the company to carry no inventory and slash distribution costs, would be to either extend overtime or have employees work on Sundays and holidays.

But that plan is being nixed by Toyota's subcontractors, who complain that their manufacturing capacity has already peaked.

Among other places, the carmaker is trying to set up a plant in Fukuoka Prefecture on the southernmost island of Kyushu. The company hopes the prefecture's central location will be a lure to employees from all over the island.

**Uncharted Terrain**

But the necessity to move is pushing Toyota into some unmapped and possibly rough terrain. It is not known if the company will be able to maintain its legendary productivity level and low production costs. In addition, Toyota may find itself with employees who will not match the levels of company loyalty cultivated over so many years in Aichi.

Yoshitoshi Toyoda, president of Toyota Automatic Loom Works Ltd., says, "Party makers like us will probably set up shop wherever Toyota builds new plants, in order to keep down distribution costs. But there will still be many parts that will have to be delivered from our plants in Aichi to distant locations."

Yet Toyota is confident that it will be able to operate at a similar level in the new plants. "In the U.S., our subsidiaries, New United Motor Manufacturing Inc. (NUMMI) and Toyota Motor Manufacturing U.S.A. Inc. (TMM) have already acquired the know-how to transport parts by ship or surface, and we in Japan could easily learn such methods from them," says one Toyota executive.

NUMMI has adopted a "kamban-plus" method fit to the U.S. situation, setting up a parts distribution hub in Chicago. TMM, meanwhile is keeping its inventory levels low by ordering parts from Japan a week ahead of time instead of just a few days.

## * Aircraft Industry Shifts to Civilian Uses

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**[1 Jan 90 p 6]**

[Article by reporter Nonoichi]

[Text] **Global Influence Through Funding Power: Japanese Companies Support Aircraft Demand**

For the first time in 40 years, defense industries all over the world are being forced to change because of the democratization of Eastern Europe and the new U.S.-Soviet detente. Will the U.S. defense industry, which is leaning toward the civilian demand sector because of defense budget cuts, strengthen U.S. industry as a whole? In what direction will the Japanese defense industry go? With our focus on the aircraft sector, we will look at the defense industry's transformation and its effects.

**Conversion of Real Estate Investments**

The reception room of Banri Real Estate Company in Nakano, Tokyo, is decorated with models of a Boeing 747, 737 and 300. All are passenger aircraft that the company bought over a period of a year after revising its articles of incorporation at the end of 1986. The total purchase price for the three aircraft was Y24 billion.

"Due to skyrocketing land prices, It is no longer profitable to invest in leased buildings. Henceforth, the thing to invest in is passenger aircraft." So says Banri's president, Masanari Yoshioka.

The yield from leased buildings in Tokyo is less than 1 percent. The 747 purchased by Banri for Y18 billion currently is leased by Martin Air, a Dutch airline, for Y2.4 billion per year. The yield is much higher, 13.3 percent.

Some of the Japanese money created by the steep rise in land prices is being invested in aircraft that are "winged buildings."

"The Tokyo Marine and Fire Insurance Company says that it will provide 1 percent of the financing. That's wonderful. Let's start the procedures right away." On 19 December 1989, Peter Denison-Edson, vice president of Guinness Pete Aviation (GPA, headquarters in Shannon, Ireland), the biggest (passenger) aircraft leasing company in the world, received an anxiously awaited telephone call at the Imperial Hotel in Tokyo.

GPA is a company with less than 150 employees, but it has ordered 780 aircraft, a tremendous number, from manufacturers. The number of aircraft it owns far surpasses the approximately 470 (at the end of 1988) owned by American Airlines, and it is expected to become the

world leader. "We already have sewed up the demand from the airlines until 1998," says Vice President Denison succinctly.

Six Japanese companies, including the Mitsubishi Trust and Banking Corporation and the Long-term Credit Bank of Japan, provided almost 30 percent of GPA's capital. The amount of funds raised from Japan is Y80 billion, 40 percent of GPA's total capital. The strength of Japanese money from Japanese banks, trading firms and insurance companies is supporting GPA.

As vice president in charge of Japan for GPA, Denison spends 10 days out of every month in Tokyo. At the end of last year, he was busy finding buyers for GPA stock that was being released by Canadian Airlines. His monthly trek to Japan has become an essential part of his job.

Last September, when GPA asked for "expansion of financing (credit) from $1.5 to $2.4 billion," there was an outpouring of requests for participation from all over the world. From Japan, 9 banks joined in, bringing the total number of Japanese banks to 26.

Mitsubishi Trust is the managing bank for the Japanese banks in the financing group. "Two years ago, there were many banks that refused to join the financing group, and it was very frustrating, but this time, we collected $1.2 billion for the $750 million increase in capital, and it was hard to get the banks to reduce their offers," says the bank's international business development department head, smiling wryly at the change in circumstances.

To bring investors like Banri Real Estate into the aircraft leasing business, GPA has set up a resident representative office in Kudan, Tokyo.

**Shortage of Civil Aircraft Continues**

According to the Boeing Corporation of the United States, the world's aircraft manufacturers will deliver 8,417 passenger aircraft from 1988 to 2005, for a total of $516 billion (about Y72 trillion). Because of global expansion of business activity and an increase in travelers, the demand for aircraft is growing at the rate of more than 5 percent a year.

Japanese financial institutions started putting their money in aircraft leasing and financing because they judged that the shortage in aircraft supply would continue.

AVIATION WEEK, the journal of the U.S. aerospace industry, predicts that U.S. aerospace industry sales will increase by 35.5 percent over a 3 year period, a healthy growth, but military aircraft sales will increase only by 13.1 percent. In 1991, the sale of passenger aircraft will be $42.1 billion, on a par with military sales ($43.5 billion).

This prediction was made before U.S. Secretary of Defense Cheney cut the defense budget. Therefore, it is quite likely that military aircraft sales will stall out even more than predicted.

According to U.S. Aerospace Industry Association (AIA) trade statistics, in 1988, U.S. aircraft and missile exports were $20.3 billion for civilian use, a 25 percent increase over the preceding year, while exports for military use was $61.7 billion, a 14 percent decrease from the preceding year.

The increase in exports for civilian use was due to the leap in demand for large passenger aircraft, and the decrease for military use was because of a drop in the exporting of fighters and missiles, and reflected the end of the Iran-Iraq war and the fiscal difficulties faced by all countries. Because of new circumstances such as U.S.-Soviet detente and Eastern Europe's rapprochement with the West, procurement of military aircraft will continue to drop, while the demand for civilian passenger aircraft will continue to rise.

**Sales to the Soviet Union and Eastern Europe**

In the closing days of 1986, Mitsui and Company purchased five MD-11's, a new type of 300-seat passenger aircraft from McDonnell Douglas Company (MD) of the United States, for $500 million. Although MD had planned to launch the MD-11 with firm orders for 20 aircraft, it was able to sell only 10 or so, and was stamping its feet in vexation. At that point, MD negotiated directly with Mitsui and Company's president Koichiro Ejiri, and with Mitsui's decision to buy the aircraft, MD was able to launch the MD-11 and breathe a sigh of relief.

Last summer, four Japanese companies including the Marubeni Corporation and the Bank of Tokyo joined Citibank Corporation of the United States in providing $48 million in financing to the state-run airline of Poland to buy B-767 aircraft.

At the end of last year, the Soviet Union, which is studying the idea of establishing a private airline to compete with Aeroflot, the state-run company, went to Boeing headquarters in Seattle to research the types of aircraft to purchase. It is said that Japanese financial institutions also were seen at that meeting.

The global aircraft market is growing increasingly dependent on civilian demand because of detente, and Japan's formidable money power is beginning to have significant influence on the strategies of aircraft manufacturers and airlines.

**[3 Jan 90 p 7]**

[Article by reporter Nonoichi]

[Text] **Japanese Companies Achieve Partner Status; Accumulation of Know-How Through International Development**

It was 20 October 1989, at Boeing headquarters in the outskirts of Seattle in the United States. "We take our hats off to Japan's strict observance of quality, cost and delivery date in the construction of the B-767. We urge you to participate in the B-777 project as well." So said Boeing's chairman to top executives of Mitsubishi Heavy Industries (MHI), Kawasaki Heavy Industries (KHI) and Fuji Heavy Industries (FHI). The B-777 is a new type of passenger aircraft in the 300-seat class that will cost more than Y500 billion to develop. Japan was asked to participate as an equal partner in design, production, sales, maintenance, and every aspect of the project, not as a subcontractor as in the past.

For the past 10 years since 1979, MHI, KHI and FHI have had shares of the production of the aircraft body and the main wing of the B-767. Their work share was 15 percent, and although they shared in production, it was as subcontractors, and for all intents and purposes, they had no say in design or in the sale of the finished aircraft.

**Market Dependent on JDA**

If a decision was made to participate in the B-777 project, it would allow the Japanese aircraft industry to grow from subcontractor status into an industry capable of codevelopment. Moreover, it would be able to learn the needs of the airlines, the customer, and for the first time have the opportunity to be able to supply parts after the sale.

Japan's aircraft market is about Y750 billion per year (as of FY89), only one-fourteenth the U.S. market, and 80 percent of it is military-based and dependent on the Japanese Defense Agency (JDA). However, it is said that, because the procurement target for the P-3C antisubmarine reconnaissance aircraft and others will be reached by the end of 1992, aircraft production for JDA by Japanese manufacturers will plummet in 1993, causing a drop of more than Y100 billion per year. Additionally, the East-West detente is bound to influence the maintenance of Japanese defense capability in the future.

The three companies want very much to participate in the B-777 project, if only to make up for the loss in military sales. It is said that they are positively studying Boeing's proposal, with a view to bearing 15 to 20 percent of the development cost.

**European Power Threatens Boeing**

For its part, Boeing has good reasons for seeking cooperation from Japan. Because of the new detente, U.S. Secretary of Defense Cheney issued a plan to reduce the defense budget to $180 billion. Survival in the 1990's will depend on how much Boeing can strengthen its passenger aircraft construction sector.

In the midst of this, Boeing is most anxious to acquire Japan aircraft technology. In 1986, it incorporated carbon fiber composite materials manufacturing technology from Nikkiso, a major manufacturer of precision pumps, and subsequently applied it to development of primary materials for building passenger aircraft.

Behind Boeing and gaining ground can be heard the footsteps of Europe's Airbus Industry, which has gradually increased its share of the global passenger aircraft market. To Boeing, Japanese capital and technology are essential to win this competition.

Japan also is a big market for Boeing. Japan Airlines and All Nippon Airways alone have 82 B-747's (jumbo jets) and have ordered 46 more. Japan accounts for more than 10 percent of the world market for jumbo jets. Boeing thinks that joining with Japanese aircraft manufacturers will give it an advantage in sales.

Japanese trading firms also are getting deeply involved in the aircraft business. Mitsui and Company is studying the possibility of providing some of the financing to develop the MD-90, a new type of passenger aircraft from McDonnell Douglas Corporation (MD). Says Mitsuhiro Ishii, director and head of the aerospace department, "We want to get away from the business of just selling aircraft to customers as merely an import agent. Cooperating in MD's production will help us strengthen our upstream strategy." The MD-90 is a new type of aircraft that seats 150, and is scheduled to be delivered in 1994.

**Government Also Has International Development Plan**

Since 1989, the government also has come up with a series of joint international aircraft development projects. MITI has begun a survey on development of passenger aircraft in the 715-seat class and at the end of 1989, it began discussing market scale and engine selection with European aircraft manufacturers. The supersonic aircraft engine research cooperative, which will be launched in January 1990, will have as members Japanese companies such as Ishikawajima-Harima Heavy Industries and American and European jet engine manufacturers such as Pratt and Whitney and Rolls Royce.

The postwar Japanese aircraft business has been a series of failures. The YS-11, which was developed with the goal of selling at least 500 aircraft, was put out of production in 1973 after 183 were produced. The lesson learned was the importance of getting the know-how to develop aircraft that fulfills the needs of the users.

To acquire technology and accumulate marketing capability and parts supplying capability through international codevelopment: that is the blueprint drafted by MITI [Ministry of International Trade and Industry] and the manufacturers.

[4 Jan 90 p 7]

[Article by reporter Sakamura]

[Text] **Automobile Manufacturers Seek Participation; Goal Is Diversification and Strengthening of Automobile Business**

Last summer, a report was being circulated that "Toyota is taking merger and acquisition action vis-a-vis a U.S. company." A comprehensive financing company called Integrated Resources (main office in New York), which offers life insurance, investment advice, etc., proposed the purchase of a company to Toyota America's President Togo. The proposal was for the purchase of Learjet (based in Wichita, Kansas), the leading manufacturer of small-scale jets in the United States, which Integrated Resources had acquired the previous year.

**Although the Proposal Came to Naught....**

On the basis of this information, the person responsible in the new business development office of the Toyota main office in Toyota City immediately flew to the United States. Ultimately, Toyota withdrew from the deal, according to a Toyota executive. One reason was that an agreement on purchase price was not reached, but there was another reason for concern on Toyota's part.

"It would be too controversial for Toyota to buy an aircraft manufacturer, much less an American one." In the minds of the Toyota leadership was U.S. media reaction to Sony's purchase of the U.S. movie company, Columbia Pictures.

On 6 November 1989, Chrysler Corporation of the United States announced that it was selling Chrysler Technology (CTC), its aerospace firm. CTC, mainly through Gulfstream Aerospace, a business aircraft manufacturer that was purchased in 1985, had put out feelers in defense electronics, parts and navigational control systems as well.

Interest became focused on the future of CTC, especially on who would purchase Gulfstream Aerospace, and again conjectures about Toyota made the rounds. Toyota's President Shoichiro Toyoda brushed this off, saying, "Toyota's name comes up whenever there's talk of a sale. It's ridiculous." At the same time, however, he let it slip that "if you order Gulfstream's most popular aircraft now, you would have to wait a year to get it. That's how many back orders it has." Toyota's interest in the superior aircraft manufacturer is more than a passing one.

**"Full-scale Advances" by Toyota**

Last year, the Japanese Defense Agency (JDA) decided to award an order to Toyota for a "high maneuverability vehicle" for transporting infantry troops, which will be fully incorporated by FY92. Nissan Motors, Mitsubishi Heavy Industries, Isuzu Motors, Hino Motors and Nissan Diesel were nudged out.

Although the vehicle will be a personnel transporter based on the "Landcruiser," Toyota's four-wheel drive vehicle, it will be quite different from the "type 73 medium-size truck" that Toyota currently supplies to JDA. The truck is used strictly for rear support, but since the high maneuverability vehicle will advance almost into the battle zone, it will be an actual "defense weapon" with armor. Many think that this is the start of a full-scale entry into the defense industry by Toyota, which is predicting that with the end of the U.S.-Soviet cold war, maintenance of Japan's defense capability will grow steadily.

The drama of the Learjet purchase, although it came to naught, was not unrelated to the defense industry. Learjet is trying to sell its 15-seat Learjet 55 in the bidding by JDA and the Air Self-Defense Force for a next-generation search and rescue aircraft.

Last year, the Honda Motor Company began basic research in the aerospace sector with the University of Mississippi in the United States. In September 1989, Honda contributed $4 million to that university's flight research center, which has a record of achievement in the development of aircraft construction materials. A "Honda fund chair" has been established and a Honda researcher has been sent to the center. Says Honda President Tadashi Kume, "What we have in mind is not an aircraft currently in existence. We want to create an automobile for three-dimensional space."

In West Germany, the conglomerate Daimler Benz, whose core is the Mercedes Benz luxury automobile, has absorbed the aircraft manufacturer Messerschmidt (MBB) into the group. Although MBB is running a deficit, it has given Benz a foothold in the aircraft industry. The "automobile industry with wings" is a global trend heading toward restructuring in the 21st Century.

**Electrical Equipment Manufacturers Also Send Out Feelers**

In June 1989, Sony purchased Transcom Systems (based in California), a manufacturer of audiovisual systems for passenger aircraft, for about $50 million. Transcom has more than 50 percent of the U.S. market for these systems, and as the biggest manufacturer, it is an important channel to U.S. aircraft manufacturers. Most people think that this is Sony's real interest.

U.S. defense authorities and aircraft manufacturers are keenly interested in Japanese electronic technology, especially display technology. One is high-definition display, as represented by high-definition television (HDTV), and another is thin-type display. High-definition display will go into the cockpit of an aircraft, regardless of whether it is civilian or military, while thin-type display can be used in the cockpit and also can be built into the backs of passenger seats.

The world leaders in these display technologies are Sony and Matsushita Electric Industrial Company. Many of the displays made by Sony already are used by the U.S. Navy and Air Force in warships and fighters. At Matsushita's comprehensive technology exhibition last spring, the company casually presented its flat display equipment and showed off its technological capability.

On the occasion of the sale of the aerospace company, Chrysler Chairman Iacocca urged automobile firms to return to the automobile business, stressing that "we must compete with Toyota and Honda in the U.S. automobile market."

On the other hand, Toyota executives stress that "henceforth, our company will target the aviation sector. It has potential for the future. There is a great deal of overlap in technology between the sectors. There are many aviation industry technologies that can be applied to automobiles." Advances into the aviation business are essential, even in the sense of strengthening the automobile business.

Toyota and Honda pursued General Motors and Mercedes Benz in the automobile industry. It is possible that the Japanese manufacturers may follow their U.S. and European counterparts into the aerospace industry as well.

**[5 Jan 90 p 8]**

[Article by Washington correspondent Yoshioka]

[Text] **Protect Domination of Civilian Aircraft Sector: United States Is Concerned About Technology Outflow**

About 40 Japanese technicians are working alongside Americans in the design center of Boeing Corporation, the world's largest aircraft manufacturer, in the outskirts of Seattle. They came from Mitsubishi Heavy Industries (MHI), Kawasaki Heavy Industries (KHI) and Fuji Heavy Industries (FHI).

The number of Japanese technicians is expected to swell to five times the current level upon commencement of U.S.-Japanese codevelopment of the B-777, a new type of passenger aircraft in the 300-seat class, in which $4 to $5 billion (about Y560 to Y700 billion) in development cost will be invested.

**Congress Reacts Against Codevelopment**

However, expressions of concern about this U.S.-Japanese codevelopment project have begun to be voiced. U.S. Congressional reaction to the agreement between the U.S. and Japanese Governments concerning codevelopment of the next-generation support fighter (FSX) for the Japanese Self-Defense Forces was that "it will lead to the transfer of superior U.S. technology." As an extension of that, Democratic Congressman Gephardt has begun to insist that "the time has come for the government to intervene in codevelopment at the private level, such as cooperation between Boeing and Japanese firms."

Ms. Hazard, an aviation industry specialist at the Harvard Business School, points out that "although U.S.-Japanese cooperation is necessary because of competition with Europe's Airbus Industry, it is certain to strengthen the Japanese group." She also cautions that "we must pay heed to the fact that Boeing is building a time bomb that will go off in the next generation."

Says J. Harbison of Booth Allen & Hamilton, a U.S. consulting firm, "There were U.S.-Japanese reversals in steel, color televisions and semiconductors, and there may be another in aircraft. A strategic link-up with Japan should be considered while the United States is still ahead."

Those who opposed U.S. participation in codevelopment of the FSX feared until the end that release of the source codes would lead to technology outflow, and they argued that source codes, the flight control software, "can be applied not only to weapons control but also to civil aircraft." The argument (by people like Senator Rockefeller and Representative Levine) that "The Japanese government is strategically nurturing the Japanese aircraft industry and the United States should not help it succeed," is gaining persuasiveness in Congress.

In response, Boeing senior vice president Clarkson has shot back, "Realistically speaking, to proceed alone on extremely costly development of the next-generation aircraft is no longer attractive." In Japan and Europe as well, international codevelopment of new types of passenger aircraft is the order of the day.

In Boeing's case, Japanese technicians do not have access to the plant, computer rooms equipped with special design and flight simulation software and other areas used for the company's top secret work. Furthermore, it is said that during meetings, Japanese technicians have been asked to leave when discussions touch upon delicate matters of competitiveness. These and other measures are being taken as a tight defense against outflow of the company's core technologies.

**The Industry-Security Link**

C. Prestowitz, former Department of Commerce adviser and author of "Trading Places," advocates the need for U.S. Government leadership to maintain America's dominance in high technology thusly: "Boeing should not opt for codevelopment with Japanese firms. It should be able to get development support from the U.S. Government or move in the direction of codevelopment with U.S. companies through the relaxation of antitrust laws."

The assessment of P. Choate, vice president of TRW, a leading U.S. aerospace firm, is that "The FSX issue was the first successful linking of industrial policy and national security by the United States." The status of technology that is crucial to national security had been limited to technology with direct military application, such as the manufacturing of titanium alloys. Now, however, more and more Americans think that this is an age where national security is affected by comprehensive technological dominance, which includes civilian technology as well.

Even within the Department of Defense (DOD), the feeling is growing stronger that "it is dangerous to depend on foreign sources for a production base for semiconductors and other electronic parts" (G. Fields, director of DOD's Defense Advanced Research Planning Agency (DARPA) ). That is why, in the last several years, DOD has gone beyond the military sector and is strengthening methods similar to industrial policy, such as development of semiconductors and high-definition television (HDTV).

The U.S. competitiveness strengthening bill presented by Senator Glenn and Democratic Congressman Gephardt last fall insists that the government's development budget, which favored the military (in 1986, the estimated figures were 42 percent civilian and 58 percent military), should be split equally between civilian and military development. The bill also includes a proposal to establish an R&D base in the Department of Commerce as a civilian counterpart to DARPA.

**Toward Restructuring of High Technology**

In the United States, government and business alike are becoming increasingly wary of a Japanese-style domination of high technology aimed at nurturing the aircraft industry as the strategic industry of the next generation. President Bush is trying to distance himself from any involvement with industrial policy. However, more people definitely agree with Prestowitz that "the United States should incorporate Japan's method (of nurturing industry)." The theory that sees Japanese high technology as a threat, which caught fire because of the controversy over the FSX, is forcing a restructuring of the aircraft industry and other U.S. strategies for domination over high technology.

**[6 Jan 90 p 8]**

[Article by reporters Nonoichi and Hakamada]

[Text] **Nurture by Interdependence: Japan Provides Technicians to United States**

"Regarding International Codevelopment of Passenger Aircraft" is the title of an opinion paper distributed to the U.S. Congress and news media by the Japanese branch of the Aerospace Industry Association (AIA) of the United States. It was compiled by about 20 aircraft-related U.S. firms that have production bases in Japan, and its purpose was to curb Congress, which was using even U.S.-Japanese codevelopment of passenger aircraft as a scapegoat.

**"Protect Our Export Market"**

The paper stated that Japan buys $2.03 billion (about Y290 billion) in aircraft (excluding defense aircraft) per year and now is the world's biggest importer of aircraft. It put forth the argument that if the United States does not join up with Japan, Japan will join up with Europe and ultimately, the export market (Japan) that now belongs to the United States will be snatched away. One of the reasons the United States must depend on Japanese manufacturers for aircraft development lies in the market.

As of November 1989, 970 civilian helicopters were registered in Japan, 104 more than were registered in November 1988. Japan has become third in number of helicopters, following the United States (about 10,500) and Canada (1,400).

The increase in companies that saw the convenience of company helicopters and the fact that helicopters became a way for investors to reduce taxes were behind the rise of Japan as a "helicopter power." Because of the sudden surge of the Japanese helicopter market, manufacturers are starting to consider Japan as the most promising market after North America. The import departments of the major trading firms have revealed that "when sales are bad, helicopter manufacturers wonder why we are not selling their products in Japan, the helicopter power, and they even ask the trading firms to buy their helicopters."

In the United States, the supply of technicians cannot keep up with the exploding demand for civilian aircraft, and there is a chronic shortage. In the spring of 1989, Boeing Corporation temporarily hired 600 skilled workers from Lockheed. Japan has about 26,000 aircraft technicians, a fraction compared to the United States (1.27 million), but it is viewed as an important source of supply by the United States. It is said that another reason that Boeing is looking at Japan as a partner in the development of a new type of passenger aircraft is this resource of technicians.

**Codevelopment of Primary Materials Also**

As if in response to Boeing's request to Japan, MITI decided to broaden the coverage of international codevelopment of aircraft, which had been limited to aircraft body and engines, to also include "machinery and systems." In the FY90 budget, Y1.8 million has been allocated for this. An employee of a certain trading firm that deals with aircraft revealed that "for the next-generation passenger aircraft, Boeing wants Japanese manufacturers to codevelop not only the actuator and generator but also primary materials."

One cannot disregard the fact that 70 percent of B-767 equipment orders placed overseas by Boeing have been with Japanese companies. More and more, the fates of Japanese and foreign aircraft manufacturers are intertwined in terms of technology.

Global production of passenger aircraft is monopolized by Boeing, McDonnell Douglas and Europe's Airbus Industry. In comparison, Japan's three main aircraft manufacturers (Mitsubishi Heavy Industries, Kawasaki Heavy Industries, and Fuji Heavy Industries) are still merely "triple yokes in one egg," according to Kawasaki Chairman Oba. However, the day is approaching when the size of Japan's market and its high technology capability will launch Japan's aircraft industry.

According to estimates compiled by the Japan Aerospace Industrial Association, Japan's aerospace equipment production in FY89 (April 1989 through March 1990) will almost reach the Y1 trillion mark; it will be Y997.747 billion, 9.3 percent more than the preceding fiscal year.

In the aircraft sector, the global boom in passenger aircraft orders has caused a sharp increase in the shared production of the fuselage of Boeing's B-767 passenger aircraft and McDonnell Douglas' MD-11 passenger aircraft. As a result, exports in this sector are expected to be Y94.972 billion, a whopping 43.3 percent increase over the preceding fiscal year. For engines, there has been an increase in shared production of the V2500 for a 150-seat passenger aircraft that is being codeveloped by five countries (United States, Japan, and European countries), and orders have risen sharply.

**Trillion Yen Industry for Japan**

In the space sector, orders for facilities connected with the H-2 rocket, whose launch has been moved back to 1993, have increased by 11.6 percent over the preceding year.

Additionally, full-scale development of the Japanese Experimental Module (JEM) of the space station, which is expected to cost Y300 billion to develop, will begin. Also, the decision has been made to develop a fourth communications satellite (CS-4) and an earth observation platform technology satellite (ADEOS).

As a result, it is certain that Japan's aerospace industry will become a trillion-yen industry in FY90.

Because of a strike that began at Boeing in October 1989, the three Japanese manufacturers that were sharing in the production of the fuselages or working as subcontractors for Boeing suffered a temporary reduction in production. Although the strike has been resolved, its effect continued until this spring, and the loss of income of the three Japanese firms is expected to reach Y2 billion. There has been no change in the weakness of the system, in which Japan catches cold when Boeing sneezes.

Nevertheless, there are people like J. Harbison, vice president of the influential consulting firm Booth Allen & Hamilton, who predict that the Japanese aerospace industry's production will grow to $29 billion (about Y1.15 trillion) in the year 2000, about a quarter of the scale of U.S. production, and will approach three-quarters of U.S. production in 2010.

## * Article Assesses Red Army Leadership

*WA1502005090 Tokyo ASAHI JOURNAL in Japanese 2 Feb 90 p 118—FOR OFFICIAL USE ONLY*

[Article by editorial staff writer Yoshio Murakami in the "News Interface" feature: "Japan Red Army [JRA] Reveals No Immediate Moves To 'Rescue Comrades'"]

[Text] The National Police Agency recently compiled a report entitled "Prospects and Retrospect," detailing crimes which occurred during 1989. The report pointed out that the JRA, which continues to be active in the Middle East, has declared it will "rescue not only JRA members but also the condemned criminals belonging to the Anti-Japan Armed Front" [Han-Nichi Buso Sensen]. Meanwhile, the Public Security Investigation Agency in a recent public release concluded that "the JRA is waiting for the right time to 'recover' Maruoka and others detained by the authorities."

JRA supporters in Japan are critical: "This is a campaign strategy by the extremists. By regarding the 'Japanese residing overseas sphere' as dangerous, they aim to intensify their oppression of domestic supporters, and also to obtain a large increase in security-related funds. This is both political and intentional propaganda."

I interviewed JRA leader Fusako Shigenobu last May in Lebanon, and published the details of the interview in the 30 June and 7 July issues of ASAHI JOURNAL. At that time, on the subject of "rescuing comrades," I reported Shigenobu as saying: "We are always thinking about rescuing not only comrades Maruoka and Sensui, but also the condemned criminals. We are serious, although we cannot tell you the timing or methods of the rescue operations."

Shigenobu's statement drew public attention to JRA plans concerning its members and the condemned criminals. These members and criminals are: Osamu Maruoka, who was arested in November 1987; Hiroshi Sensui, who was arrested in June 1988; and Shoji Daidoji and Toshiaki Masunaga, leaders of the "Wolf [Okami] Group," who were sentenced to death in March 1987 by the Supreme Court for their roles in a series of corporate bombings.

It is obvious that the public security authorities used the interview as one source upon which they based their analysis.

However, in view of the direct or indirect responses from the "field" during the intervening six months since the interview, as well as the recent unfolding of a series of world events, we should perhaps discard the thought that the "Shigenobu statement" suggested any immediate "rescue of comrades."

Needless to say, the JRA supports the Palestine Liberation Organization (PLO). The JRA did not act alone in the massacre at Tel Aviv airport on 30 May 1972, or in its hijackings. However, at present the PLO has given up its terrorist line of action and is trying to win international recognition for "founding a Palestine state" by a peace offensive.

It is impossible for the JRA to act alone. "Recovery" of the prisoners can only be achieved by domestic and international movements demanding the release of the prisoners. In the cases of the condemned criminals, there will have to be a demand for the abolition of capital

punishment. Therefore, we should interpret the "Shigenobu statement" in this context. However, judging from the present situation in Japan, there is little prospect the JRA's expectations will be realized.

Unless the public security authorities have strong evidence, other than information obtained from my articles, I think they should rectify their views in the "Prospects and Retrospect."

Incidentally, JRA leader Fusako Shigenobu is kept extremely busy. She was that way when I interviewed her. Nevertheless, she is a copious writer, and writes readily to friends, acquaintances, and supporters back home.

Recently she expressed her opinions regarding the turbulent developments in Eastern Europe: "Basically, problems arose because party members and officials did not listen to what the people had to say." Regarding the Palestinian situation, she wrote: "Peaceful negotiations are under way against the backdrop of people power—'intifadah.'" Her letter stressed "peace."

In her rigid style of writing, one now and then can see the face of a once youthful literary enthusiast. A letter which talked about her birthday of "40-odd years" contained phrases like "the cosmos seeds that I planted last year bore only tiny flowers. But this year, big flowers are in full bloom." Judged from her writings, it would appear she is not planning hijackings.

Since the JRA is a political group, it may change depending on the political situation surrounding it. But perhaps we should consider that "the old JRA" no longer exists.

### * Laws Augmented To Prevent Drug Money Laundering

*WA2602030080 Tokyo SANKEI SHIMBUN in Japanese 17 Feb 90 Morning Edition p 10—FOR OFFICIAL USE ONLY*

[Excerpts] On 16 February, the government will augment legislation to prevent money laundering through the improper use of accounts in financial insitutions to disguise the sources and flow of money obtained from narcotics transactions. This will include enactment of a tentatively designated "Narcotics Money Laundering Prevention Law." Institutions that will be regulated will be not only banks but also securities companies and post offices. Plans include requirements to verify the identity of principals when opening accounts and to notify the Ministry of Finance [MOF] in instances where cash transactions appear suspicious. [passage omitted]

In order to prepare for unified international guidelines, which are planned to be adopted at the Houston summit in July, ministries and agencies concerned, including the MOF, the Ministry of Foreign Affairs, the Ministry of Justice, the Ministry of Welfare, and the National Police Agency, are in the final stages of presenting their lines of thinking at a summit preparatory conference the government has planned for April.

As in France, the amendment of existing legislation, such as the Narcotics Control Act, will be carried out to augment the legal system. However, it has not yet been decided whether to enact new legislation, as the United States and Great Britain have. Last November the government signed a new agreement aimed at eradicating narcotics (the Vienna agreement). The government feels that in addition to augmenting the legal system, at an early date it wants to present a bill in the Diet to ratify the Vienna agreement and pass enabling legislation. [passage omitted]

### Ulaanbaatar Rally Demands Leaders Resign

*OW0603013990 Tokyo YOMIURI SHIMBUN in Japanese 5 Mar 90 Morning Edition p 5—FOR OFFICIAL USE ONLY*

[By correspondent Emoto]

[Text] Ulaanbaatar, 4 Mar—A joint rally participated in by four prodemocracy groups was held for the first time today in Ulaanbaatar, capital of the Mongolian People's Republic [MPR]. Fifty thousand people took part in this biggest rally on record and passed a resolution demanding that the incumbent leadership resign en bloc and demoratic elections be held immediately.

At the rally, a new party, the "Mongolian Social Democratic Party," was also declared founded, becoming the second opposition party following the Democratic Party, which was inaugurated last 17 February.

After the rally all participants took part in a demonstration march from the downtown main streets to Sukhe Bator Square in front of the government building. This was the first time since the 1921 Mongolian revolution that so many people participated in a demonstration march on their own accord.

The demonstrators presented a senior government official with a written demand calling for the convocation of a special Hural session before the end of March and the resignation of the entire incumbent leadership. They warned him that, unless a reply was given by 7 March noon, they would begin a hunger strike. The senior government official reportedly answered that a reply would be given on radio and television by 7 March.

The four groups which took part in the rally were the "Mongolian Democratic Union," the "Social Democratic Movement," the "New Progressive Union," and the "Mongolian Student Union." The participants poured successively into the Lenin Museum Square in downtown Ulaanbaatar from before noon, holding in their hands banners and placards reading, "Divert defense spending to road construction," and the like.

Representatives stood in turn before the microphone, criticizing that trade has been unilaterally advantageous to the Soviet Union. They said: "The Soviet Union is buying uranium from Mongolia at only 5 rubles per kilogram" and "purchasing cattle at 37 rubles (approximately 9,000 yen) per head and sheep at 6 rubles (about 1,500 yen) per head."

In view of these demands, the party and the government hurriedly announced that the party Central Committee plenum and People's Great Hural session originally scheduled for June would be advanced to 20 and 21 March.

### News Briefing Held on Soviet Withdrawal Talks

*OW0303134090 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1237 GMT 3 Mar 90—FOR OFFICIAL USE ONLY*

[Text] Ulaanbaatar, March 2 (OANA-MONTSAME)—Negotiations on the final withdrawal of Soviet troops from the territory of the MPR between the Governments of the MPR and the USSR ended successfully here, said Lieutenant-General S. Jadambaa, head of the Chief Headquarters of the MPR Armed Forces and first defence minister, at a press conference held here today, on March 2, for Mongolian and foreign journalists. He led a Mongolian delegation at the Mongol-Soviet talks on the final withdrawal of Soviet troops from the territory of Mongolia.

The lieutenant-general informed that the Soviet troops will be withdrawn completely in 1992. He called the agreement, reached, as "historical decision" and "major step" which are of great Significance not only for the two countries, but for the whole world. He emphasized the importance of this decision in strengthening trust in the region. "I regard it a direct result of the restructuring underway in Mongolia as well as in the Soviet Union and an evidence of new defence doctrine of our two countries," said S. Jadambaa.

Answering the questions put by journalists, S. Jadambaa said that the reached accord would have a clause envisaging any possibility of bringing Soviet troops into the country. However, Soviet military advisers will be invited to work at the defence ministry, he said.

### Sodnom Feted by Former Japanese Prime Minister

*OW0303132090 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1243 GMT 3 Mar 90—FOR OFFICIAL USE ONLY*

[Text] Ulaanbaatar, March 2 (OANA-MONTSAME)—A special MONTSAME correspondent reports from Tokyo:

D. Sodnom, chairman of the MPR Council of Ministers, who is on an official visit in Japan, and his people visited today the ancient Japanese town of Kyoto. They were shown the sights of the town. On this day the late Prime Minister of Japan S. Uno hosted a dinner in honour of D. Sodnom. D. Sodnom was accompanied to the town of Kyoto by H. Takase, ambassador of Japan to the MPR.

### Joint Communique on Sodnom Visit

*OW0303141390 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1215 GMT 3 Mar 90—FOR OFFICIAL USE ONLY*

[Text] Ulaanbaatar, March 2, (OANA-MONTSAME)—The National daily "UNEN" has published the joint Mongol-Japanese communique. The document says that D. Sodnom, chairman of the MPR [Mongolian People's Republic] Council of Ministers, who is on an official

visit in Japan since 27 February this year, paid a visit to the emperor of Japan and met with Y. Yoshio Sakurauchi, Chairman of the House of Representatnes (Shugi-in), and Yashihiko Tsuchiya, chairman of the House of Counsellors (Sangi-in) of the Japanese parliament (the Diet). On March 1 a meeting and talks were held between D. Sodnom, chairman of the MPR Council of Ministers and T. Kaifu, prime minister of Japan.

The communique notes that D. Sodnom and T. Kaifu discussed the ways of further expanding and developing relations of friendship and cooperation between the two countries. D. Sodnom elucidated the goals, the present-day state and prospects of the restructuring and renewal, currently underway in Mongolia. T. Kaifu called the first visit of the Mongolian prime minister to Japan a historical event and stated that "this visit will be a favourable possibility for strengthening and developing further ties between the two countries [no end quotes, as received]. D. Sodnom expressed gratitude to the government and people of Japan for a cordial welcome. He also expressed hope that his visit would contribute further progressive development of Mongol-Japanese relations.

The document says that D. Sodnom noted that the restructuring and renovation, underway in Mongolia, were aimed at enhancing democracy, raising the efficiency of the country's economy, increasing its economic potential as well as at diversifying foreign policy and foreign relations of the MPR. T. Kaifu greeted the efforts of Mongolia and stated the preparedness of Japan to contribute to this cause as far as possible.

D. Sodnom and T. Kaifu were unanimous that the development of Mongol-Japanese relations would become an important contribution to the strengthening of peace, development and prosperity in the Asia-Pacific region.

The two sides expressed satisfaction over the signing of mutual trade agreements. T. Kaifu stated the intention of Japan to study the possibility of granting a long-term credit to Mongolia for setting up a small-size plant of ferrous metallurgy and to make efforts for expanding economic cooperation in order to render assistance in raising the welfare of the Mongolian people and developing Mongolia's economy, having noted that the question of rendering an aid on a gratis basis was being considered.

D. Sodnom welcomed the position of Japan in relation to cooperation with Mongolia and invited T. Kaifu on behalf of the MPR Government and on his own behalf to visit Mongolia any time convenient for him. T. Kaifu expressed gratitude for the invitation.

### Student Leader Briefs Press on Upcoming Meeting

*OW2402000290 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1748 GMT 23 Feb 90—FOR OFFICIAL USE ONLY*

[Text] Ulaanbaatar, February 23 (OANA-MONTSAME)—The Union of Mongolian Students (UMS) will be an independent socio-political [word indistinct] independent youth policy aimed at safeguarding the interests of its members, L. Bold, UMS deputy chairman, said at a press conference devoted to the forthcoming 4th conference of Mongolian students slated for March 2, 1990.

The forthcoming conference will discuss the questions dealing with the renewal of UMS activity, the elaboration of [word indistinct] of this renewal and other key problems faced by the entire students of Mongolia.

W. Bold also formulated some basic, in his opinion, provisions which are to be submitted to the programme document of the union.

As he said, the Union of Mongolian Students renounced the political leadership of the Mongolian Revolutionary Youth Union, comes out against the one party rule and approves the switch to multiparty system, calls upon to respect and observe elementary human rights, defined in the universal human rights declaration.

According to L. Bold, the programme document of the UMS is to be adopted at the forthcoming 4th conference of Mongolian students.

### Great People's Hural Drafting Presidential System

*OW0403023290 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1532 GMT 3 Mar 90—FOR OFFICIAL USE ONLY*

[Text] Ulaanbaatar, March 3 (OANA-MONTSAME)—Organizational structure and activity of the highest state authority is a paramount task of restructuring the country's political life, said L. Rinchin, the chairman of the MPR [Mongolian People's Republic] Great People's Hural at a press conference held here today for the Mongolian and foreign journalists.

Making the system of elections more perfect is becoming one of the substantial tasks facing us. The country is discussing today the draft election law of the deputies of people's hurals he said. This and other draft laws will be considered at the forthcoming session of the MPR Great People's Hural to be held this March.

The Great People's Hural (National Assembly), as we see it, should be a truly highest legislative organ of the country and its deputies must not be only the people approving this or that draft law but should actively participate in their elaboration, the chairman of the Great People's Hural stressed.

Currently we are working out drafts for restoring a system of parliament which existed in the early years of the revolution in the face of great and small state hurals as well as of introducing the presidential system of management, L. Rinchin pointed out.

### Government Restores Text of National Anthem

*OW2402013090 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1752 GMT 23 Feb 90—FOR OFFICIAL USE ONLY*

[Text] Ulaanbaatar, February 23 (OANA-MONTSAME)—The national daily "UNEN" published a decree of the Presidium of the MPR Great People's Hural on restoration of the original text of the MPR national anthem, written in 1950 by MPR people's writer Tsendiin Damdinsuren.

The MPR national anthem with its restored original text will be performed starting from 26 February this year, the first day of the Mongolian New Year.

In this connection, the MPR Presidium resolved to annul the first point of its decree "on approving the new text of the [words indistinct]. The original text of the MPR national anthem [was] written by late Academician Damdinsuren, poet and prosaist.

### Daily Discusses Draft Party Documents

*OW2602000690 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1756 GMT 23 Feb 90*

[Text] Ulaanbaatar, February 22 (OANA-MONTSAME)—The national daily "UNEN" continues to discuss the draft party documents, that are the rules and instructions for nominees to the leading party posts.

Most of the readers approved inadmissibility of nominating Central Committee, aymag and city party committee secretaries for more than twice.

I. Rabdan, Party secretary of the Ubs aymag proposes to nominate them immediately at the congress and party conferences according with alternative candidatures. L.Namsray pointed out the necessity of renewing up to 50 percent of Politbureau members and Central Committee, aymag and city party committee secretaries when the first term of being in power will expire.

L. Bedz, veteran party member considers that under the conditions [of] perestroyka and variety of views the party should support active public organisations which contributed much to the country's development.

### Public Security Ministry Chief Interviewed

*OW0503072290 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1236 GMT 3 Mar 90—FOR OFFICIAL USE ONLY*

[Text] Ulaanbaatar, March 2 (OANA-MONTSAME)—The great part of legal acts of the public security bodies are the resolutions and instructions of the MPRP Central Committee, recognizes Major General B. Tsiyregdzen, first deputy public security minister and head of the Chief Board of State Security, in his interview with a Mongol press correspondent. His interview was published in the latest issue of the weekly "TSAG YE" (TIME).

B. Tsiyregdzen agrees that it is time to reconsider the previous practice of providing with job at the public security organizations only those who are party and MRYU members. He informed that the draft decree of the Presidium of the MPR Great People's Hural on strengthening the legal basis of the activities of public security bodies had been submitted for discussion to the highest legislative body. "The whole activity of public security bodies should be regulated by the law, that is they should be subordinated to the state and accountable to it. Such a status excludes the possibility of being controlled by one party or a group of people," said B. Tsiyregdzen.

"I do not agree with those people who are for abolishing the public security ministry as any state needs the organizations which will defend the Constitution and democracy, fight against anti-state crimes. But I agree with the opinion that the work of the ministry should be improved, said the major-general.

### Ulaanbaatar Militia Members Discuss Problems

*OW0403023690 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1534 GMT 3 Mar 90—FOR OFFICIAL USE ONLY*

[Text] Ulaanbaatar, March 3 (OANA-MONTSAME)—"This is not exactly a rally, but an attempt for it", said Colonel J. Hurtsgerel, leader of the Ulaanbaatar militia, talking about the rumours speculated among the city's nationals as if a group of militiamen had held a meeting in front of the "Yalalt" cinema house.

"No more than 20 people had gathered near the cinema and not 500 as it was said. There were no political demands there. I met some of the participants who were rank-and-file militiamen and talked with them. It was a simple exchange of opinion where they discussed militia's social problems. All of them agreed that this gathering runs counter to the spirit of an oath they gave as law and order keepers", said Colonel J. Hurtsgerel to a MONTSAME correspondent.

### Breeders Deliver Record Number of Animals

*OW0403024590 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1535 GMT 3 Mar 89—FOR OFFICIAL USE ONLY*

[Text] Ulaanbaatar, December 3 (OANA-MONTSAME)—Spring delivers of offspring has started in the rural regions of Mongolia. The Mongolian livestock breeders intend to deliver and rear up in 1990 not less then 9.4 million head of offspring. They reared up in 1989 a record number of young animals that is 9.6 million head. According to 1989 census, the country has registered 11.4 million mother stock, which is considerably more than in 1988.

Progressive forms of labour organisation and stimulation widely introduced into livestock breeding promote the successes of livestock breeders in delivering and rearing up young animals. As the MPR [Mongolian People's Republic] Ministry of Agriculture and Light Industry reports, almost half of the country's livestock breeders work on lease and contract form of agreement.

### Possiblity of Seoul-Beijing Air Service by April

*OW2202022990 Tokyo ASAHI SHIMBUN in Japanese 18 Feb 90 Morning Edition p 3—FOR OFFICIAL USE ONLY*

[By correspondent Odakawa]

[Text] Seoul, 17 Feb—Chairman Cho Chung-hun of the Korean Airline Co (KAL) was interviewed by ASAHI SHIMBUN on 17 February and revealed the possibility of opening an air service between Seoul and Beijing. The agreement with the Civic Aviation Administration of China could be reached as soon as April. He predicted that the airline's chartered plane will make the first flight to Beijing even as early as this spring.

His revelation also means that the KAL-planned regular service connecting Seoul or Pusan with Moscow via China as well as the Soviet Aeroflot service to connect Moscow and Seoul via Shanghai, as announced on 17 February, can be realized earlier than expected. This could also open up a way for planes linking Japan and Beijing to fly over South Korea.

KAL, at the time of the Seoul Olympics in 1988, flew its planes over China to haul people to and from Europe in connection with the Olympics. China was initially cautious about opening air services with South Korea, out of consideration for the DPRK (North Korea), but KAL succeeded in putting a service to Shanghai in August last year. Chairman Cho, who visited China early this month to discuss the opening of a service between Seoul and Beijing before the Asian Games in Beijing in the fall, declared: "There is the prospect of arriving at an agreement in or around April on the opening of the Seoul-Beijing service."

Chairman Cho is due to visit China again in March to finalize talks with the Chinese side. Should an agreement be reached, KAL will initially fly its planes on chartered basis. He said: "We will be able to fly our athletic team members and officials directly to Beijing for the Asian Games." On the other hand, he forecast: "As for the inauguration of a regular service, I think it will be timed with the establishment of diplomatic relations now being discussed between the Governments of China and the ROK."

Chairman Cho revealed that in addition to the regular Seoul-Moscow service beginning in late March, KAL is planning to have a regular service linking Seoul, or Pusan, with Moscow via Tashkent in the Uzbek Republic and flying over Chinese skies. He said that the question of passing through the Chinese skies has already been resolved and the service will become a reality within the year."

If such air service is to begin, there arises the possibility of Japanese aircraft being permitted to fly over South Korea to Beijing, and in turn if that happens, the Japan-Beijing flight that now takes about four hours will be cut by about one hour. Hence, the Japanese side is very eager to see this development. Chairman Cho added: "We would like to do our part toward the development of the Asian and Pacific region by expanding air routes and economic cooperation."

## Paris Paper Says Vietnamese Troops in Cambodia

*PM0103093090 Paris LE NOUVEL OBSERVATEUR in French 22-28 Feb 90 pp 40-41—FOR OFFICIAL USE ONLY*

[Jean Lacouture report: "Cambodia: If France Does Nothing...."]

[Excerpts] [Passage omitted] Some investigators maintain that Vietnamese "experts" are still operating here and there in offices in Phnom Penh and Battambang. What is clearer, though, is that, in case of emergency during the fiercest offensives by the coalition militarily dominated by the Khmer Rouge, Vietnamese crack units described here as rangers (reminiscent of John Wayne!) intervene at Phnom Penh's request in lightning operations which some say are paid in dollars.... Although he did not confirm this last point, Vietnamese ambassador Ngo Dien assured me that Hanoi was not refraining from giving its Phnom Penh friends an occasional helping hand "because, in view of the support given by the Chinese and Thais to the Khmer Rouge and Sihanouk's supporters, it would be very unkind of us to abandon our threatened Cambodian friends." [passage omitted]

What about the war? Asked to define its nature, Prime Minister Hun Sen told me: "Since the Vietnamese left, our losses have increased greatly. The Khmer Rouge, the only ones who are really fighting, are scattering mines throughout the country which are causing us cruel losses. They cannot defeat us or capture a major city, let alone hold one. Their harrassment, however, is preventing the country from recovering and above all tends to impose them as inevitable interlocutors. We refuse to accept that they have any legitimacy, but we admit that there are two governments—the one which I lead and which really governs virtually the whole country, and the one which, in one way or another, follows Prince Sihanouk. We have long waited for this courageous man, who is capable of making bold decisions, to shake the Pol Potists' hold, but now on the eve of the new phase in the negotiations we can see that the coalition is more closely controlled by Pol Pot than ever." [passage omitted]

What is the "party?" Is it a Leninist organization? Everyone knows that it is not necessary to have a doctorate in Marxism to behave like a good Stalinist bureaucrat. In the sphere of eclecticism, we are a long way from the current ideological mixtures being concocted in Central Europe. Questioned on "his" communism, Interior Minister Sin Song told me, clearly flabbergasted (if he was deceiving me, what an actor he is!), that he did not feel concerned by this question. Khieu Kannarit, the best observer of the local scene, a Marxist by training, said that "nobody cares about communism here." There is not one of Hun Sen's recent gestures, from the restoration of Buddhism as the state religion to the establishment of a market economy, which is not a challenge to the program of the Khmer "revolution." [passage omitted]

## Defense Secretary Interviewed on Coup Attempts

*OW1202025690 Tokyo TOKYO SHIMBUN in Japanese 3 Feb 90 Morning Edition p 8—FOR OFFICIAL USE ONLY*

[From the "Saturday Interview" column: Summary of a TOKYO SHIMBUN interview with Philippine Secretary of National Defense Fidel Ramos in Manila; time, place not given; filed by correspondent Norihisa Sawaki]

[Text] Manila—National Defense Secretary Fidel Ramos, who was instrumental in suppressing the sixth aborted coup d'etat under the Aquino administration in the Philippines, is a man who reminds you of the expression "It depends on whether you look at it as the glass being half empty or half full." According to the Filipino sense of values, he should rather be commended for suppressing all six rebellions rather than be considered "less influential because of the recurrence of the rebellions." Events have again shown that the ability to command the military is the key to internal stability. He is currently considered the most likely candidate for the presidency "after Aquino." Amid rumors of a "seventh coup," he showed great confidence in winning the people's support.

[Question] First, let me ask why the rebellions occurred. It seems that, behind this is the people's disappointment with the Aquino government. During the rebellion last December, the people were indifferent onlookers.

[Ramos] The Department of National Defense and the Armed Forces have a very simple analysis of the basic cause of the rebellion. It was insatiable desire for power. Various reasons were given to justify violence, but the sixth rebellion was due to the desire for power. It is true that the financial, military, and political support given to the rebel forces during the last coup were unprecedented, but I am confident about the future. That is because the people are against violence and want peace, order, and economic development.

[Question] It is said that no People Power reemerged to oppose the rebellion.

[Ramos] That is not true. This time, the People Power we wanted was not human barricades of people bearing the crucifix like those in the February Revolution (which brought about the Aquino government). This is because, as witnessed in the August 1987 incident, the rebels fired on the citizens, killing and wounding them. What we wanted was real barricades and information about the rebels' movements. During the last rebellion, I asked Secretary of Local Government Santos and the mayors of Metro Manila to come to Camp Aguinaldo (where the Department of National Defense is located) and we worked for military-civilian cooperation.

[Question] Around midnight on 30 November, Armed Forces Chief of Staff De Villa gave a press conference, in which he said that a coup plan was discovered and suppressed, and we published this as news. However, exactly at that time rebel troops were on the offensive and, by the time the papers came out, the rebellion had begun. There have been doubts about the Armed Forces' intelligence activities.

[Ramos] We indeed had information on the moves of the rebels, their recruitment of sympathizers and fund raising. However, the military's intelligence section is but a part of the government's intelligence agencies. I do not mean to be critical, but there was little flow of information and cooperation from other agencies. We had allowed the rebellion to happen, but we immediately got reinforcements from the provinces and effected a reversal of the situation. The rebel leaders in this last coup attempt will be strictly punished to the extent allowed by law. Our laws are liberal, but after the incident, I suggested that laws on weapon management and insurrection be tightened. I also improved the system of coordination of intelligence activities.

[Question] In December 1987 (after the previous coup attempt in August), Lieutenant Colonel Honasan was arrested and brought before you. You served him coffee. This was hard for the Japanese to understand...

[Ramos] At that time, he was the first captured rebel leader. In order to obtain more information, I had to make him feel at ease. I am sure you have similar techniques in Japan. What you call carrot and stick. However, I assure you that is not (always) the Filipino way of doing things. After that, he was treated as a rebel soldier. Unfortunately, he escaped... You can look at how we have punished participants in insurrections. In the January 1987 incident, six of the generals were stripped of their rank and sentenced to 20 years in prison, seven were given 12-year sentences and three to 12 years' incarceration [as published]. Some of those involved in the August 1988 rebellion are still being tried, but nine of them have already been stripped of their rank and given 8-year prison terms.

[Question] Are you confident that you can capture ex-Lieutenant Colonel Honasan?

[Ramos] Yes. It is not easy to find a fugitive in a big city. There are slums in Manila, and we have no established system of household registers and resident registration. However, the people are against the coup d'etat, and are eager to provide us with information.

[Question] President Aquino has accused Senator Enrile, Vice President Laurel, and industrialist Eduardo Cojuangco of being the masterminds of the rebellion.

[Ramos] The prosecution of civilians is under the jurisdiction of the Department of Justice. However, the Government takes the firm policy of determining the leaders of the rebellion based on evidence, and will punish them sternly.

[Question] President Aquino says she is not running in the next presidential election. Will you run?

[Ramos] (For the time being), my job is to think about 1990 only.



END